

**HDI DEVELOPMENT AND INVESTMENTS
B.V.**

Company Appraisal Report
20 February 2017


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DISCLAIMER

This appraisal report (“Report”) has been issued for information purposes only with regards to value of Hotel Development and Investments B.V. (“HDI”) as assessed by Türkiye Sınai Kalkınma Bankası A.Ş. (“TSKB”) and includes various documents and financial tables. This Report and/or the information contained here cannot be copied, disclosed or distributed to any third parties. TSKB hereby explicitly waives and excludes any kind of responsibility or obligation arising out of or due to any data or omission on the documents or any written and/or oral information obtained from Akfen GYO, HDI and other sources (e.g. EPOS) in order to issue this report. Unless stated otherwise, the information in this Report is up-to-date and valid as of the date of this Report.

Analysis, opinions and results presented within this report have been constituted through our personal, objective and professional appraisal, assessment and interpretation of documents and information provided by Akfen GYO and HDI. The information and documents provided by Akfen GYO and the assumptions and the arguments concluded were all assumed to be true and correct in this Report.

The financial tables assessed during this study have been obtained from HDI. Although TSKB has shown the utmost care and attention to eliminate any mistakes and omissions in this study; all major items affecting the appraisal results shall be considered with the possibility of that such information may be incorrect and missing since the data has been obtained from external sources and the same has been assumed in this study.



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Introduction and Scope

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Introduction and Scope

Akfen Gayrimenkul Yatırım Ortaklığı A.Ş. (“Akfen GYO”) has applied to Türkiye Sınai Kalkınma Bankası A.Ş. (“TSKB”) in order to obtain company appraisal consultancy services to assess and determine the value of Hotel Development and Investments B.V. (“HDI”, “Company”), which is a subsidiary of Akfen GYO.

This appraisal study has been carried out based on the financial tables of HDI and no detailed legal and financial inspections, accounting audits and/or management presentations have been performed in order to assess the value of the related Company upon the request as indicated above.

Three methods are utilized for company appraisals. The Discounted Cash Flow (DCF) method calculates the current value of a company by determining a discount rate based on the risk profile of the company and in line with the future cash flows to be achieved by the company and the current market conditions. In the Multiplier Analysis Method, value of a company is assessed by considering the average of financial ratios of companies operating within the same sector as the company and/or financial ratios belonging to previous transactions realized within the sector. The Net Asset Value method has been utilized for this appraisal study.

The value calculated by using the Net Asset Value expresses the “fair market value” of the Company. However, the main factor in sale-purchase transactions regarding an asset is the “price” agreed as a result of the negotiations that have taken place between a motivated buyer and a seller. However, attention should be drawn to the fact that the “price” which constitutes the ground for such sale-purchase transaction might be realized at a level different than the “fair market value”.

“The Investment Properties and Investment Properties in Progress” item, stated in the related real estate appraisal report of EPOS Gayrimenkul Danismanlik ve Degerleme A.S., has been revised by the Company for Net Asset Value calculations. Based on the revised value, all liabilities and liability allowances indicated under liabilities item to be deducted from the revised assets of the Company, shown in the balance sheet dated 31 December, 2016 of HDI.

The financial tables assessed during this study have been obtained from HDI. Although TSKB has shown the utmost care and attention to eliminate any mistakes and omissions in this study; all major items affecting the appraisal results shall be considered with the possibility of that such information may be incorrect and missing since the data has been obtained from external sources and the same has been assumed in this study.



Based on the Share Purchase Agreement signed on 4 September 2013 between HDI, the wholly owned company of Akfen GYO, and Beneta Limited, Severnyi Avtovokzal Limited shares have been taken over by HDI B.V. with a cost of USD 12,975,000 on 4 September 2013. The Company Severnyi Avtovokzal is located in central Moscow on a plot of 2,010 m² and it has a room capacity of 317. Further the company has the rights of the project ("Moscow Hotel Project") that received construction permits. Based on the rental contract signed with Accor on 29 January 2014, Moscow Hotel Project will be operated by Accor under IBIS brand and an appraisal report has been issued by EPOS Gayrimenkul Danismanlik ve Degerleme A.S. on 06.01.2017, in order to assess the fair market value of the rights and benefits arising out of the aforementioned share takeover.

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Russian Economy

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Russian Economy

Russia, as the major natural gas producer and the second largest petrol producer in the world, suffers from the fall in oil prices and the economic sanctions imposed by European Union. Russian economy which achieved a GDP of \$2.2 trillion in 2013, shrunk by 9% and declined to \$2.0 trillion in 2014. In 2015, Russian economy shrunk by 35% compared to 2014 and declined to \$1.3 trillion. GDP of Russia remained flat with \$1.3 trillion in 2016. In parallel with declined GDP, Russia became the 12th in 2016, while it was the 8th largest economy in the World according to its 2013 GDP figure.

Russia was adversely affected from the economic crisis towards the end of the year 2008 and the Russian Economy shrank by 7.9% in 2009. The economy started improving in 2010 and an economical growth equal to 4.8% in 2010 and 4.2% in 2011 was achieved. In 2011, with this percentage, Russia became the 3rd country with the highest growth rate in the world. In 2012 and 2013, Russia's growth decreased to 3.4% and 1.3% respectively, according to information released from the Russian State Institute of Statistics. The major reasons of decline of growth are the decrease in the export of energy resources due to the decrease in demand and economic stagnation in the Euro Zone, slowdown in consumer loans and the decline in production of in mining and electricity industries. Due to the political instability caused by the Ukrainian dispute in 2014 and slumping oil prices in 2015, Russian economy is not expected to recover in the near future. According to estimates, Russian economy is not expected to recover in the near future. Per World Bank forecasts, the country's growth forecast for 2016 and 2017 is given by the World Bank as -0.6% and 1.5% respectively.

Russia had double-digit inflation rates in 2008-2009 yet, the inflation rate dropped down to one-digit numbers in 2010 as a result of appreciation of ruble and low import rates and receded to 6.9%. Inflation again increased in 2011 and although the inflation rate, which was around 8-9% at the beginning of 2011 dropped down to 6%; average inflation rate in 2011 was recorded as 8.5%. In 2012, inflation dropped to 5.1% with Russian economy's improving performance and the figure is increased, to the level of 6.8% in 2013. The inflation increased to 7.8% in 2014, and the it touched historically highest level to 15.5% in 2015. According to IMF estimates, inflation figure is expected to be 7.2% in 2016.



Sector



Sector

Tourism Sector in the World

Tourism sector, rapidly growing and expanding since 1950 globally, is creating significant economic value for many countries across the world and having both direct and indirect benefits to economies. As the borders slowly disappear, World began to shrink more and people began to be able to travel to longer distances. Creating large employment opportunities owing to its labor-intensive nature and generating added value in which regions and countries the sector is developing attach higher importance to the tourism sector. Considered one of the largest industries contributing to economies, the sector continues to grow and develop.

The tourism sector is a broad sector containing various subsectors, including holiday planning, accommodation, holiday organization/sales, and it further includes transportation, auto rental, etc. to business who participate in such touristic subsectors.

With the globalization trend becoming preeminent since the 1980s, transportation and communication have become much more accessible, therefore, a mobile environment has been created. Further, improving life standards has become another driving force behind the development of tourism. The sector affects various items and areas such as holidays, travel tours, hotels, parks, museums, highways, travel agencies, passenger transportation services, sports-health-culture tourism and offers employment opportunities for people who are involved in these areas, therefore, booming the economy by creating employment directly and indirectly.

The tourism sector has shown a tendency to stagnate during economic slowdown periods and tends to improve and grow in line with the economic recovery periods. The tourism sector has a directly effect on other main sectors, such as transportation, service and retail sectors.

Along with its contribution to revenue, tourism also plays an important role in balancing the deficit in balance of payments in foreign currencies. Depending on the demand for tourism sector, infrastructure developments, increasing agricultural and industrial production, improvements in communication and transportation systems, increased efficiency in mercantile and service businesses are expected. The tourism sector, which is also an effective marketing and advertisement tool for countries, contributes to international cultural and social communication.



World tourism, which grew by 4% in the first six months of 2016 compared to the same period last year, reached a record high with 956 million people. This figure, compared to the same period last year, shows an increase of 34 million people.

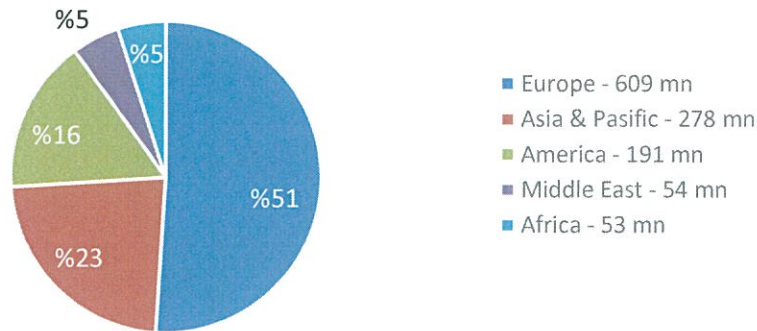
According to the World Travel & Tourism Council 2016 Report, tourism sector, constitutes 3% of global GDP when its direct effect is considered. Considering its direct and indirect effects, tourism sector constitutes 9.8% of global GDP. Considering the effect on other sectors, the travel and tourism sector constitutes 9.5% of global employment. Further, according to 2016 figures, leisure and business travels constitute 76% and 24% of respectively.

Travel and tourism industry is projected to grow with an annual average rate of 4%, reaching USD 11 trillion, which is 10.8% of the global GDP, in 10 years. Tourism sector is expected to constitute 11% of global employment by 2026 when its direct and indirect effect is considered.

According to World Tourism Organization (WTO) 2015 Report, number of tourists travelling around the world grew by 4% and reaching 1.184 billion in 2015 which is above the last 6 – year average. According to the same report, Europe is the most visited region by tourists in 2015, with a share of 51% and approximately 609 million tourists. Regarding the future expectations, number of tourists travelling is predicted to rise to 1.8 billion and fastest growth in the sector is predicted to be in Asia-Pacific countries and travels for visiting families, friends or with health purposes is predicted to dominate travels for leisure and business purposes in 2030¹.

¹ World Travel & Tourism Council 2015

Graph 1: Breakdown of Number of Tourists (in Million People) and Shares (%) by Regions in 2015



Kaynak: World Travel & Tourism Council Report

Tourism Sector in Russia

Russia has a population of approximately 143.8 million, and the country’s travel and tourism sector constituted 5.7% of the total economic output with the size of \$69.7 billion. Tourism sector is expected to constitute 6.8% of the total economic output of \$97 billion. The contribution of travel and tourism sector to GDP is based mainly on the number of visitors arriving to the country in question. Russia attracted 31.3 million tourists in 2015 achieving \$13.3 billion tourism exports. It is forecasted that the number of tourists will increase by 6.4% and 35.2 million in 2016. In addition, number of tourists is expected to reach 73.3 million in 2026 creating a value of \$25.7 billion.

According to the World Tourism Organisation report published in 2016, number of tourist arrivals increased by 5% to 31.3 million in 2015. According to same report, due to the sharp fall in Russian rubles against U.S. dollar, tourism income of Russia declined to \$8 billion thus Russia lost its place among top 10 countries in terms of tourism receipts.

According to the World Tourism Organisation report, tourism related investments were \$6 billion in 2016, where as it was \$8 and \$10 billion in 2014 and 2013, respectively. Further, \$9 billion is anticipated for the year 2026. Moreover, Russia to host the FIFA 2018 World Cup indicates that the investments to this region will increase in upcoming years.

It is a known fact that, visa requirement for regular Turkish passport owners – one of Russia’s economic sanctions against Turkey - had a great impact on declining Turkish tourists. Nevertheless, the number of Turkish tourists expected to recover as Russia lifts sanctions on Turkey in the upcoming periods.

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Moscow, the capital of Russian Federation has a population around 11.5 million. The city is founded on approximately 2.511 km². The city, which has been founded on the Moscow river in the European side of the city extend towards vast Siberian plains over the Ural mountains on the west and reached Okatsk Sea on the East side.

Moscow is one of the preferred tourism destinations in the world with its countless number of museums, monasteries and churches. Pushkin Museum of Art, State Tretyakov Gallery, Moscow Museum of Modern Art, Chudov Monastery, Preobrazhenka Cemetery, Nativity Church and St. Nicholas Church are amongst the many historical and cultural sites located in Moscow. Besides the historical aspect of the city, it has high number of businessman and investor visitors during the year. Major industries of the city are metal processing and machinery manufacturer. Textile and clothing, chemical products, shoes and woodworks are amongst the other major industrial products.

In 2016, Russia hosted the first Business Traveler Awards international ceremony for the first time. Moscow has been rated the best city for business and event tourism. Besides Moscow, St Petersburg, Vienna, Madrid, Abu Dhabi, Barcelona, Jerusalem, Paris and other cities were listed among best cities.

One of the greatest opportunities ahead of the hospitality industry in Moscow is the 2018 World Cup Organization. As part of the 2018 World Cup organization, 12 stadiums are under maintenance/construction in Moscow. Final preparations are being made by the participating countries for the 2018 World Cup organization and according to various news reports, Moscow has invested in infrastructure enough to accommodate more than one million tourists within a month during World Cup organization.

According to a research which is conducted by Mercer Human Resources in 2014, Moscow which is the 9th most expensive city in the world for foreign tourists, lost its position in the first 10 cities and placed 67nd in 2016 due to weaken Russian ruble.

The inner-city transportation is mainly carried out by subways, busses, trams and trolleybuses and transportation in more residential and rural areas uses Moscow Small Freeway and Moscow Metropolitan Area Peripheral Railway. Moscow has 5 main airports, 9 railway stations and 2 river terminals.

The Company

Company Overview

Incorporation and Current Status

HDI has been founded as a subsidiary of Akfen GYO in the Netherlands, with Akfen GYO owning 100% of its shares to realize hotel projects in Russia on 18 March 2011.

HDI signed a Share Purchase Agreement with Beneta Limited, the 100% owner of Severny Autovakzal Limited Company that has the rights of hotel plot, with a cost of USD 12,975,000 in order to realize the hotel project with Severny Autovakzal Limited Company. The company to be taken over has signed a rental agreement for the real estate with Moscow Government that is to be valid between 20.04.2010 and 24.09.2056 under the responsibility for realizing a hotel project. Moreover, there is additional rental agreement arranged on 02.06.2011. State's appraisal report for the real estate, which is necessary for the hotel Project, is available as of 02.12.2011.

The hotel project includes 317 rooms, that is to be built on 2,010m² land, whose the right of use belongs to Severny, and will be run under the brand of Ibis Otel. HDI came to an agreement with Ant Yapı for the turnkey construction of the hotel building for a value of EUR 16,500,000 + VAT and construction for the project started on September 2013. The hotel has started to operate on June 16, 2015. 33% of the project is completed as of 31 December, 2013 and based on the rental contract signed with Accor on 29 January 2014, the Moscow Hotel Project will be operated by Accor Group under Ibis Hotel brand. According to the same rental contract, either 25% of total sales or 85% of AGOP (Adjusted Gross Operating Profit), depending on which one is higher, will be paid to HDI as rental income.

Shareholding and Capital Structure

The paid in capital of the Company is TRY 23,062,678 as of the date of this report.

Financial Fixed Assets

As of the date of this appraisal report, Severny is the wholly owned subsidiary of HDI.

Financial Statements

The condensed balance sheet dated 31 December, 2016 of HDI, which was incorporated on 18.03.2011 is as indicated below.

Table 1: Balance Sheet of HDI

HOTEL DEVELOPMENT AND INVESTMENTS B.V. CONDENSED BALANCE SHEET		
(TRY)	31/12/2015	31/12/2016
Cash and Equivalents	5,519,421	54,823
Other Current Assets	1,382,841	2,664,658
Total Current Assets	6,902,262	2,719,481
Investment Properties and Investment Properties in Progress	141,702,345	170,412,208
Tangible Fixed Assets	66,674	70,604
Other Fixed Assets	970,684	3,422,448
Total Fixed Assets	142,739,703	173,905,260
TOTAL ASSETS	149,641,966	176,624,741
Current Installments of Long Term Liabilities	715,615	1,535,996
Other Liabilities	2,235,594	3,528,426
Other Short-Term Liabilities	89,887	159,949
Total Short-Term Liabilities	3,041,096	5,224,372
Long-Term Financial Liabilities	82,755,314	95,730,091
Deferred Tax Liabilities	13,707,769	16,090,838
Total Long-Term Liabilities	96,463,083	111,820,929
Total Liabilities	99,504,180	117,045,300
Paid-in Capital	23,062,678	23,062,678
Foreign Currency Conversion Adjustments	(50,243,606)	(24,465,577)
Previous Year's Profits (Losses)	82,283,441	77,318,714
Net Term Profit (Losses)	(4,964,728)	(16,336,374)
Total Equity	50,137,786	59,579,441
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY	149,641,965	176,624,741

The major item in the assets of the Company Balance Sheet is the "Investment Properties and Investment Properties in Progress", which amounts to TRY 170,412,208.

The major item in the liabilities of the company is the "Long-Term Financial Liabilities" is related with the credit from Credit Europe Bank, which is used for construction of Moskova Ibis Otel.

Table 2: HDI Income Statement

**HOTEL DEVELOPMENT AND INVESTMENTS B.V.
INCOME STATEMENT**

(TRY)	31/12/2015	31/12/2016
Net Sales	1,209,732	5,081,305
Cost of Sales	(886,342)	(1,440,935)
General Administration Expenses	(1,338,349)	(1,282,148)
OPERATING PROFIT	(1,014,958)	2,358,222
Other Operating Income/Costs	6,767,339	(29,147,105)
Financial Income/Expenses	(11,176,020)	7,146,110
Deferred Tax Income/Expenses	458,912	3,306,399
NET TERM PROFIT/LOSS	(4,964,728)	(16,336,374)

(Source: HDI)

Appraisal

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The Appraisal

Scope and Methodology

The Net Asset Value method has been utilized for determining the fair market value of HDI. Net Asset Value method is based on the principle of calculating the “Adjusted Book Value” by calculating and deducting the approximate market value of all assets currently owned by the Company from the market value of all liabilities of the Company, without considering the possible future cash flows to be created by the Company.

In order to achieve this, all cost and expense items indicated on the balance sheet for certain fiscal terms need to be expressed with their current market values and therefore, estimated real values of all assets owned by the company and expertise values of all fixed assets shall be calculated and all financial and other liabilities of the Company shall be deducted from this amount in order to attain the net asset value.

The Net Asset Value of HDI has been calculated based on the balance sheet dated 31 December, 2016, which is the most recent financial table of the Company.

The most important fixed asset item of the Company according to its balance sheet dated 31 December, 2016 is “Investment Properties and Investment Properties in Process” has been revised by the Company according to the market value stated on the expertise report dated 06.01.2017 of EPOS Gayrimenkul Degerleme A.S. Values related with other items included in the assets of HDI and amounts related to the liabilities of the Company have been calculated over the amounts stated on the balance sheet based on the assumption that such figures reflect the actual market value.

No detailed financial or legal inspection and financial audits have been carried out in order to verify the validity, accuracy and existence of accounts on which this appraisal study was based.

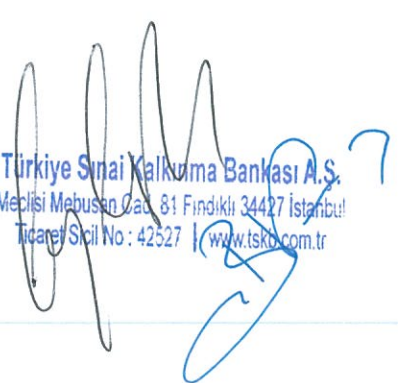
Appraisal Results

The Net Asset Value of the Company based on the balance sheet dated 31 December, 2016 has been valued as TRY 59,579,441 (EUR 16,030,630).

Table 3: Net Asset Value of HDI

NET ASSET VALUE OF HOTEL DEVELOPMENT AND INVESTMENTS B.V.	
AS OF 31/12/2016 (TRY)	
+ Cash and Equivalents	54,823
+ Investment Properties and Investment Properties in Progress	170,412,208
+ Tangible Fixed Assets	70,604
+ Intangible Fixed Asset	0
+ Other Current and Fixed Assets	6,087,106
Total Assets	176,624,741
- Current Installments of Long Term Liabilities	1,535,996
- Other Short Term Liabilities	3,688,375
- Long-Term Financial Liabilities	95,730,091
- Deferred Tax Liabilities	16,090,838
Net Asset Value	59,579,441

31 December, 2016 EUR/TRY: 3.7166


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