Equity / Large Cap. / Conglomerate

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IPO REPORT

Akfen Holding

A rare trinity : innovation - growth - high return

A multi asset infrastructure play with proven track record

Akfen can best be described as an infrastructure operator, currently active in air and sea port operations, and the energy, construction, real estate and water and waste water utilities sectors. The company invests in businesses which command a monopoly position or work to a concession type nature, bear limited exposure to economic cycles and competitive pressures, and offer strong growth potential.

Impressive track record on origination, structuring and exiting

During the past 10 years, Akfen has successfully been handed over 70% of the infrastructure concessions it has aimed to acquire, winning in excess of US$5bn of concessions and privatizations in Turkey.

A textbook exit: The Vehicle Inspection Concession (TUV Turk)

Akfen group, TUV Sud AG, and Dogus Otomotiv joined forces in 2004 to bid for the 20 year concession for the motor vehicle inspection services in Turkey. Akfen Holding successfully divested its 33% stake in TUV Turk and TUV Turk Istanbul, along with Adana, Içel, Hatay franchises to the international private equity group, Bridgepoint, in October 2009, with an impressive IRR 94%. This figure excludes the probable US$120mn deferred payment in 2015.

High growth, long term stable cash flows and limited downside – the common traits of Akfen's businesses

TAV Airports, Mersin Port, Akfen REIT, TASK (water and waste water utilities), and TAV Construction all offer significant future growth potential. Meanwhile, the downside at TAV Airports, Akfen REIT , HEPPs, and TASK are limited by minimum passenger guarantees, minimum rent amounts, regulated tariffs, price guarantees and minimum flow volumes.

Future opportunities in the pipeline to create value

Akfen Holding is continuously assessing opportunities to expand its funding channels or create value through securitizations, strategic sales and IPOs in order to start new projects, or to realize returns on investment.

Possible delays in privatizations, tightening credit conditions and deterioration in markets may hit Akfen Holding's future growth plans

Future investment opportunities for Akfen Holding include the expected privatization of toll roads, electricity generation and distribution assets and sea ports. Thus, delays in the privatization of these assets due to adverse market conditions may postpone the expansion of Akfen's portfolio.

Highly sensitive to changes in discount rates

A significant proportion of the value in Akfen's businesses is derived from distant cash flows, rendering the NPV highly sensitive to changes in market risk premium or the risk free rate. The relatively high levels of operating and financial leverage are also factors, which may lead to high volatility in equity value.

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I. Investment Summary

A multi asset infrastructure play with proven track record

Akfen can best be described as an infrastructure developer and operator, currently active in air and sea port operations, as well as the energy, construction, real estate, and water and waste water utilities sectors. The company invests in businesses which command a monopoly position or work to a concession type nature, bear limited exposure to economic cycles and competitive pressures, and offer strong growth potential. Akfen mostly relies on long term project financing without recourse to shareholders, and teams up with experienced international and domestic strategic investors when sector, technical and operational expertise is needed. The company actively manages its portfolio, continuously assessing opportunities to create financing through securitizations, strategic sales and IPOs, to invest in new businesses.

Impressive track record on origination, structuring and exiting

During the past 10 years, Akfen has successfully been secured over 70% of the infrastructure concessions it has aimed to acquire, winning in excess of US$5bn of concessions and privatizations in Turkey. The largest tenders were for the renewal of Istanbul Atatürk Airport (US$3bn, including VAT), Mersin International Port (US$755 mn), and TUV Turk Vehicle Inspection Stations (US$613 mn), all three having been concluded in 2005, while the initial BOT tender for Istanbul Atatürk Airport (US$300 mn) was held back in 1997.

When it comes to exits, TAV Airports successfully completed its IPO in 2007, raising US$323mn (or 445.625.000 TL). More recently, the company sold its 15% stake in TAV Tunisie and 35% stake in HAVAS, the ground handling arm of TAV Airports, for a total consideration of €130mn (€102mn from HAVAS and €28mn from TAV Tunisie sale to IFC). In addition, TAV Airports signed an agreement to divest another 18% stake at TAV Tunisie for €40mn. The TUV Turk Vehicle inspection project also serves as an impressive exit case, having already proven highly successful in the structuring and execution stages. Last but not the least, Mersin port project has won the Euromoney award as the project finance deal of the year in 2007.

A proven execution capability

Akfen holds a 26.1% stake in TAV Airports Holding <TAVHL TI>, 39.4% of which is floated on the ISE. TAV is the operator at four Turkish airports (Istanbul, Ankara, Izmir–only international terminal and Gazipasa Antalya), two airports in Georgia, two in Tunisia and two in Macedonia. In fact, the company reached to 10 airports in 10 years. Akfen won the privatization tender for Mersin International Port (MIP) back in 2005 as part of a 50-50 JV formed with Singapore based PSA. Providing both container terminal and other cargo services and marine services through its fully owned subsidiary, MIP ranked 2nd in Turkey in terms of container throughput (852K TEU) in 2009, up from 804K TEU in 2007, in its first year of operation under Akfen-PSA. TAV Construction which was established in 2003, ranks 102th in the list of largest international construction companies– 3rd in the world according to ENR in the rating of airport constructions in 2009 following Bechtel (America) and Hochtief AG (Germany). The group started to build its HEPP portfolios back in 2007 by acquiring licenses. The 1st HEPP was operational by the end of 1H09, while 8 other will be operational at the end of 2010, reaching to a total of 19 in 2011. Finally, Akfen REIT opened its 1st hotel in 2005 and reached to 9 hotels by the end of 1Q10.

A textbook exit: The Vehicle Inspection Concession (TUV Turk)

Akfen group, TUV Sud AG, and Dogus Otomotiv joined forces in 2004 to bid for the 20 year concession for the motor vehicle inspection services in Turkey. The consortium won the tender, submitting the highest bid of US$613.5mn (a 10% discount was made for the cash payment of US$552mn). The concession agreement was signed in August 2007, while the roll out of inspection stations was completed in the 1st quarter of 2009. TUV Turk collected US$873mn in franchise entrance fees upfront from the sub-operators and paid-back US$552 mn in bank loans. Akfen Holding had contributed a total TL 54 mn of equity between 2005 and 2008 for the 33% stakes in TUV Turk and TUV Turk Istanbul, along with the 100% stakes in the Adana, Içel and Hatay franchises.

Akfen Holding successfully divested its 33% stake in TUV Turk and TUV Turk Istanbul, along with Adana-Icel-Hatay franchise, to the international private equity group, Bridgepoint, in October 2009, with an impressive IRR 94%. Moreover, the deal also includes a deferred payment of up to US$120mn in 2015, based on trigger tests on the aggregate revenues of the companies during 2012-2014 period. When it comes to the existing operating performance of the vehicle inspection business, capture rates and revenue development have all exceeded initial plans, Akfen Holding management is confident that the revenue targets necessary for the US$120mn deferred payment in 2015 will be achieved.

High growth, long term stable cash flows and limited downside – the common traits of Akfen's businesses

TAV Airports offers significant growth potential, which is expected to be driven by Turkey's growing tourism sector, Turkish Airlines' expanding fleet, particularly in long haul, and Istanbul's increasing importance as a hub. Indeed, air passenger traffic in Turkey grew by a CAGR of 13% between 2006-2009. It is worth noting that the company aims to reach 100mn passengers by 2020, from 42.1mn as of 2009. The minimum volume guarantees at Ankara and Izmir airports and predetermined fees/pax for domestic and international passengers at all airports increase the visibility of operating income, while limiting the downside.

TAV Construction is specialized in airport construction with a proven track record and operates in a niche area in its geographical region, where competition is limited. In fact, the company has partnerships with its strongest competitors in territories it operates in, principally the Middle East and North Africa regions. TAV Airports' successful operational track record will also support further additions to TAV Construction's backlog.

Mersin International Port (MIP) is another success story. TEU growth had been 2.8x of GDP growth between 1995 and 2009, excluding years of GDP contraction, owing to its fast expanding regional hinterland. Meanwhile, it is worth mentioning that the contraction in TEU volumes in the years of recession had been much milder than the GDP contraction in those years (1999 GDP :-3.4% vs MIP TEU :-2.4%, 2001 GDP:-5.7% vs MIP TEU :-0.5%, and 2009 GDP :-4.7% vs MIP TEU :-2%). Furthermore, the Port of Mersin, currently offering one of the cheapest service fees in the region, will be free to set its tariffs by the middle of May 2010. A 10% rise in container handling charges and a 15% increase in CFS charges are expected, contributing positively to operating profits in 2010. Last but not the least, MIP has enough land to raise its existing effective capacity from the current 1.2 mn TEUs up to 4.8mn TEUs with further investments.

HEPPs under development will be significant contributors to future growth. The Turkish electricity market is expected to grow at a CAGR of 6.3%-7% over the 2009-2018 period, according to Turkish Electricity Transmission Company estimates. Akfen Holding has one of the major few hydro-electric portfolios with a total capacity of 382MW. With the exception of 110 MW HEPP-3 projects, out of all projects except one which is already operational since May 2009; 9 of them are under construction whereas the remaining 9 will be under construction before the end of H1 2010. The construction of Catak HEPP is planned to be started by early 2011. With a state guaranteed purchase price of €50-€55/ MWh for renewable energy resources, the downside is limited for these projects, while the planned privatization of the state owned generation assets is expected to bring about higher electricity prices going-forward.

Akfen REIT, the only hotel REIT both in Turkey and Russia, has a unique business model in the sense that the leasing contracts with the ACCOR group are based on a predetermined percentage of revenues or, again, a predetermined percentage of adjusted gross operating profits, whichever is the higher. This limits the downside in rental income by revenue sharing, while letting the company to enjoy the upsides via receipt of 65-70% of AGOP.

TASK, water and waste water utilities investment, currently has three water concessions (one operational, two in approval stage) and one waste water BOT contract. Although the contribution from TASK to Akfen Holding's financials was minimal in 2009 and will remain so in the short term, it will definitely capitalize on its expertise to take part in bigger potential projects, as the only private company in this segment. The private sector's contributions to the water and sewerage segments in Turkey are 2% and 3%, respectively – one of the world's lowest in the water sector. The private sector's share in the total is expected to increase to nearly 10% by 2015, offering ample room for the company to grow. The tariffs in the water concessions are adjusted according to CPI or quoted in Euro, while there are minimum flow guarantees in the waste water BOT project, again limiting the downside potential.

Having in-house contracting companies helps keep execution risks under control

The utilization of in-house construction companies in projects (TAV Construction for airports and Akfen Construction for hotels and HEPPs) minimizes the execution risks, including cost and time overruns, while easing project financing needs. TAV Construction is the group's contracting arm specialized in the construction of airports and high rise buildings, with a backlog of over US$2bn, and is mainly active in the MENA region. The company ranks 3rd among airport contractors based on ENR's ranking. Akfen Construction is involved in contracting management primarily for the group's real estate and energy investments, in exchange for a fixed cost plus mark-up.

Future opportunities in the pipeline to create value

Akfen Holding is continuously assessing opportunities to expand its funding channels through securitizations, strategic sales and IPOs in order to start new projects and or realize returns on investments. The Holding has recently completed a TL100mn bond issue, gaining access to an alternative channel of funding.

Investment opportunities in the pipeline include a 450MW natural gas combined cycle power plant in Mersin, a 99MW damn type HEPP located in Bayburt, the privatizations of the Toroslar electricity distribution grid, with 2.6 mn customers, in Southern Anatolia, the Iskenderun Port and the privatization of toll roads.

The Mersin NG plant, estimated to cost €280mn, is expected to be completed in 4Q12. The license application for the power plant has already been submitted, while the Environmental Impact Assessment report has already been obtained.

The company also submitted a license application for the Laleli dam type HEPP, which is targeted to be commissioned during 3Q13 at an estimated cost of €140mn. The eligibility decision was obtained from the EMRA for the Laleli HEPP.

The Toroslar electricity distribution grid covers the Adana, Gaziantep, Hatay, Mersin, Osmaniye and Kilis regions, with a total consumption of 13.9mn kWh. During the previous electricity distribution tenders, the average transfer price per subscriber had been US$329, which implies a concession fee of around US$900mn for the region.

The port of Iskenderun is located in the North Eastern part of the Mediterranean sea, catering to South and South East Anatolian region as well as to the transit traffic to the Middle East countries. The port is expected to be re-tendered in 2010.

Akfen Holding has been working on the toll roads project since 2007 together with an international partner. The privatization tender for the toll roads, which is not open for tender yet, had been delayed in 2008 due to the turmoil in financial markets. An official announcement regarding the timing of the tender is not yet on the cards.

The company also plans to participate to the privatization of IDO (Istanbul Sea bus and ferry services). The Municipality of Istanbul appointed a consortium of investment banks to advise on the transaction in 1Q 2010.

II. Risk Factors

Possible delays in privatizations, tightening credit conditions and deterioration in markets may hit Akfen Holding's future growth plans

Future investment opportunities for Akfen Holding include the expected privatization of toll roads, electricity generation and distribution assets and sea ports. Thus, delays in the privatization of these assets due to adverse market conditions may postpone expansion of Akfen's portfolio. Furthermore, the tightening in credit conditions could also threaten the company's growth, given its dependence on long term project financing in infrastructure concessions and electricity privatizations. However, the company managed to secure the financing of HEPP 1 portfolio in 2009, despite the financial crisis. Finally, any deterioration in financial markets and macroeconomic conditions could delay exits from the current portfolio.

Weakening TL may hurt the bottom line temporarily due to the massive FX denominated debt position

According to sensitivity analysis provided in the 2009 financials, each 10% depreciation of the TL shaves TL67mn off from the earnings. However, the fact that project revenues and debt are denominated in the same currency, provides a natural operational hedge in the medium term. It is also worth mentioning at this stage that 87% of the company's total debt is medium and long term.

Prolonged delays in the construction of HEPPs or possible changes in legislation may hurt profitability

Possible delays in the construction of the HEPPS, which may result from expropriation law cases and delays in equipment delivery, as well as changes in legislation, may take a toll on the profitability of HEPPs. Amendments to the renewable energy law, which are expected to raise the guaranteed purchase price from €50-€55 /MWh to €70 /MWh, have been delayed in parliament amid concerns on the impact on the Central Government budget.

Delays / cancellations in new hotel openings and need for cash injections until 2015 to execute the business plan unless planned REIT IPO takes place

Delays or cancellations in the opening of new hotels as planned may lower Akfen REIT's future earnings. Meanwhile, the company may need cash injections until 2015 to fulfill its expansion plan, unless REIT IPO takes place. Last but not the least, several international operators launching their mid scale and economy hotel brands in Turkey may increase the competitive pressure in this segment.

Passenger figures are highly sensitive to macro shocks, diseases, terrorism and war

Although the company sought to reduce its country related risk by diversifying into international markets, and guaranteed pax figures in Ankara and Izmir Airports serve as a cushion during recessionary periods, Istanbul Ataturk Airport still accounts for a significant proportion of revenues and operational profitability, and does not have any guaranteed passenger traffic. The risks mentioned above may have a negative effect on Turkish Airlines' passenger numbers and therefore on passenger traffic at Ataturk Airport and other airports in Turkey. Turkish Airlines uses Ataturk Airport as its operational base and in 2009 accounted for approximately 64% of international and 76% of domestic traffic at Ataturk Airport and 83% of domestic traffic and 25% of international traffic at Esenboga Airport.

TAV Construction is vulnerable to delays in the commissioning of new airport projects and raw material price hikes

With most projects based on lump sum contracts, TAV Insaat is vulnerable to sudden increases in raw material prices such as concrete, bitumen, reinforcement bars and structural steel. In addition, any drop in passenger figures may cause delays in the commissioning of new airport projects.

Potential volatility in the operational performance of Mersin Port as a result of changes in trading volumes and new port projects in the region

MIP's operating profits depend on growth in global trading volumes and import and export volumes in its hinterland. The development of new container ports in the region may also pose a threat to company's volumes. The acquisition of Iskenderun port by a rival, transforming it into a container port, may have a negative impact on MIP's future revenues. However, the heavy investment requirement and the presence of a stronger partner as PSA having good relations with global shipping lines pose a formidable barrier for entry when it comes to competition.

Highly sensitive to changes in discount rates

A significant proportion of the value in Akfen's businesses is derived from distant cash flows, rendering the NPV highly sensitive to changes in market risk premium or the risk free rate. The relatively high levels of operating and financial leverage are also factors which may lead to high volatility.

TASK's future operating margins may be hurt if increases in op-ex exceed CPI inflation or if TL overvalued against Euro

TASK have regulated tariffs which are adjusted with respect to CPI inflation for TASK Güllük and fixed in EURO terms for TASK Dilovası. In case OPEX rises more than CPI inflation or TL is appreciated against EURO, the company's margin will suffer.

TAV Construction's backlog is sensitive to the fluctuations in oil prices

Fluctuations in oil prices may have a negative impact on construction activities in oil rich countries in MENA. A drop in oil prices will deteriorate the outlook in MENA countries as being oil exporters. We expect that will be negative for TAV Construction and is very likely to stall its construction backlog.

III. Exit Track Record

III.1. TAV Airports Holding

TAV Airports was established by Akfen, Tepe Group and the Vienna Airport JV to build and operate Istanbul Ataturk Airport International terminal and associated facilities. The company succeeded to secure the most of the largest airports in Turkey, Ankara and Izmir, followed by Georgia, Tunisia, and Macedonia. The company became the leading airport operator in Turkey with 45.3% market share in 2008 and 44.0% market share in 2009. TAV Airports was successfully IPO'ed back in 2007, raising US$323mn. Akfen Holding sold 16.3% stake at TAV Airports during the IPO, implying an IRR of 170%.

III.2. Kuşadası Cruise Port

Akfen Holding obtained this concession together with Royal Caribbean Cruises back in 2003 and exited in 2004, selling its stake to a subsidiary of Global Investment Holding. The port's revenues are mainly driven by the cruise and ferry operations (landing revenues based on the number of passenger arrivals; port service revenues such as pilotage, tugboat, sheltering, security fees, waste removal, and fresh water; duty free revenues and parking revenues) and a shopping mall (rent revenues from tenants). The company generated 352% ROE, with an exit value of US$5.7mn.

III.3. TUV Turk Vehicle Inspection Stations

Akfen group, TUV Sud AG, and Dogus Otomotiv joined forces in 2004, to bid for the 20 year concession for the motor vehicle inspection services in Turkey. The consortium won the tender by making the highest offer with US$613.5mn (10% discount was made for the cash payment of US$552mn).

During the tender process new regulations, including the right to retract uninspected vehicles from the road and penalties for overdue tests, were introduced to ensure that all vehicles are regularly inspected. Total car park of Turkey grew by 8% between 2002-2008, reaching a total number of 14mn.

The concession agreement was signed in August 2007, and the roll out of 189 inspection stations and 79 mobile units were completed as of the 1st quarter of 2009. The consortium secured US$552mn loans from the banks to finance the license fee payment and the royalty and entrance fee of the sub-operator TUV Turk Istanbul, with the same shareholder structure.

Later on TUV Turk collected US$873mn franchise entrance fees upfront from the sub-operators and paid-back bank loans except for the loan obtained for Istanbul. Akfen Holding had also acquired 100% stakes at franchises in Adana, Içel and Hatay regions besides its 33% stakes at TUV Turk and TUV Turk Istanbul. Equity contribution of Akfen Holding to the vehicle inspection business during 2005 and 2008 totaled US$44mn (around 80% of which was paid in 2008).

Akfen Holding successfully divested its 33% stake at TUV Turk and TUV Turk Istanbul along with its 100% stakes in Adana, Içel and Hatay franchises to the international private equity group Bridgepoint on October 2009, with an impressive IRR of 94%. Moreover, the deal also includes a deferred payment of up to US$120mn in 2015, based on trigger tests on the aggregate revenues of the companies during 2012-2014 period. Looking at the existing operating performance of the vehicle inspection business, capture rates and revenue development exceeding initial plans, Akfen Holding management is confident that the revenue targets to receive US$120mn deferred payment in 2015 will be achieved.

Figure 1: Akfen Holding Exit Track Record

	Investment Period		
	Start Date	Exit Date	IRR
Tav Airports Holding	1997	2006	170%
Tav Tunisie	2007	2010	24%
TuvTurk Vehicle Inspections	2005	2009	94%
Aegean Port Operations	2003	2004	165%

Source: Akfen Holding

IV. Pipeline Investment Opportunities

IV. 1. Mersin NG combined cycle power plant

Scope and Location

The land is located 4.5 km east of Mersin harbor and at 12km distance to Tarsus organized industrial zone which is very close to consumption zones. Currently, a non operational heavy oil plant exists at the site. Thus, dismantling the plant before the construction of the generation facilities is highly recommended by the public, making the project attractive from environmental point of view. Proximity to the sea enables the use of sea water for cooling and the low altitude provides an advantage in terms of productivity and efficiency. Although the license application has been made for 450MW installed capacity , there is possibility to increase it to 800MW, via different configuration. The total cost of the project is estimated to be at €276mn. The plant is targeted to be operational in 4Q12.

License Status

License application has been made to EMRA and a positive review letter from the Ministry of Energy to EMRA has already been submitted. The application for the use of land, which belongs to the Treasury, has been made to EMRA. Environmental Impact Assessment Positive certificate has already been obtained.

IV.2. Laleli Dam type HES

The license application is made whereas the license eligibility decision has been obtained for 99MW installed capacity with an annual generation of 240.5GWh/year, which may be increased to 221MW with a generation of 570.2 GWh/year. The license application will be altered accordingly. The investment is planned to start in Q3 2010 and be operational in Q3 2013, with total investment of near €140mn. Ability to sell electricity to the market at peak price thanks to the dam investment will make Akfen's hydro portfolio more balanced. Based on the company's guidance it is projected to generate a revenue of €16mn in 2013 and €27mn when it is fully operational in 2014. According to the company's guidance, the NPV of the project is estimated as €140-150mn.

IV.3. IDO (Istanbul Sea bus and ferry services)

The company also plans to participate to the privatization of IDO (Istanbul Sea bus and ferry services). The Municipality of Istanbul appointed a consortium of investment banks to advise on the transaction in 1Q 2010. At present IDO operates 89 vessels and 82 terminals and carries more than 100mn passengers and over 6mn vehicles every year, which was around 67mn passengers and 4.5mn vehicles in 2005. Over the last five years, IDO has invested US$361mn for fleet expansion and improvement of port facilities. In July 2009 the City Council approved plans by the City Council approved plans by the Municipality Planning and Budget Commission to carry out the privatization of IDO in the form of an IPO or strategic sale. The municipality appointed a consortium of investment banks to advise on the transaction in 1Q 2010.

IV.4. Toll Roads Privatizations

Privatization of toll roads via transfer of operating rights, fully fits Akfen Holding's investment profile. The tenders which were initially scheduled to be held in 2008, were postponed due to the economic turmoil. Akfen Holding has already teamed up with an international toll road operator for the tender.

Key Investment Highlights

- In Turkey the share of motorways in passenger and goods transportation is 95%, vs approximately 80% in EU countries and 90% in USA
- Annual 8% increase in vehicle / km in motorways and 15% in highways, compares with nearly 0% in EU.
- High potential for an increase in number of vehicles / capital
- A high return investment with vertical integration opportunities with multiple sectors.

The Scope

The privatization covers motorways, Bosphorus and Fatih Sultan Mehmet bridges and service facilities on these motorways. The construction, maintenance, rehabilitation and operation of these assets are currently undertaken by the General Directorate of Highways.

Figure 2: Toll Roads and Bridges of Turkey

Toll Roads and Bridges - Length (Km)	Motorway	Connecting Road
Edirne-Istanbul Motorway	240	39
Istanbul - Ankara Motorway	388	60
Ankara Peripheral Motorway	107	4
Izmir - Cesme Motorway	77	11
Izmir - Aydın Motorway	109	21
Izmir Peripheral Motorway	43	0
Pozantı - Adana - Mersin Motorway	176	42
Adana - Iskenderun -Sanlı Urfa Motorway	425	137
Bosphorus Bridge	5	0
Fatih Sultan Mehmet Bridge Peripheral Motorv	37	8
Total	**1607**	**322**

Toll Road Bridges - Statistics	2009, mn
Number of Vehicles	314
Bridges	144
Motorways	170
Income (TL mn)	495
Bridges	152
Motorways	343

Source: Privatization Administration

IV. 5. Toroslar Electricity Distribution

Republic of Turkey Prime Ministry Privatization Administration ("PA") aims to liberalize distribution and retail sale of electricity services given by Turkish State-owned joint-stock company namely TEDAS. For an efficient privatization, Turkey's distribution network was divided into 21 different regions with respect to geographical proximity, managerial structure, energy demand and other technical/financial factors.

Figure 3: Turkey's Distribution Regions

Source: TEDAS

The privatization efforts speeded up in 2010 once again to sell the remaining 7 regions including Bogazici, Gediz, Trakya, Dicle and Toroslar. According to this plan, Toroslar represents the 7th region and encompasses 6 different cities; namely, Adana, Gaziantep, Hatay, Mersin, Osmaniye, and Kilis. Toroslar Region's total consumption is 14bn kWh, with 2.59mn subscribers, according to 2008 figures, implying to a valuation of US$ 1.25bn and US$ 875mn, based on median value/cons and value/sub of past privatization transactions. Winning the tender for the Toroslar region, will also create synergies with the planned 450 MW capacity NG power plant to be build in Mersin, located in the same region. The loss theft ratio at Toroslar region is 8.9%, implying room for improvement.

Figure 4: Domestic Electricity Distribution Privatization Multipliers

Distribution Company	Buy Side	Date	Privatization Value (USD)	# of subs.	Consumption (MWh)	Value/ Subs.	Value / Cons.
Başkent EDAŞ	Sabancı - Verbund	July. 08	1.225,00	2.951.380	9.965.603	415	123
Sakarya EDAŞ	Akkök-Cez	July. 08	600,00	1.273.360	7.889.941	471	76
Meram EDAŞ	Alarko	Sep.08	440,00	1.482.736	5.426.290	297	81
Aras EDAŞ	Kiler	Sep.08	128,50	704.555	1.494.925	182	86
Çoruh EDAŞ	Aksa	Nov.09	227,00	988.603	2.267.747	230	100
Osmangazi EDAŞ	Eti Gümüş	Nov.09	485,00	1.266.966	5.041.687	383	96
Yeşilırmak EDAŞ	Çalık Enerji	Nov.09	441,50	1.420.460	4.062.656	311	109
Van Gölü EDAŞ	Aksa	Feb.10	100,10	424.237	1.300.787	236	77
Fırat EDAŞ	Aksa	Feb.10	230,25	682.090	2.032.621	338	113
Çamlıbel EDAŞ	Kolin	Feb.10	258,50	746.002	2.146.361	347	120
Uludağ EDAŞ	Limak	Feb.10	940,00	2.264.748	10.940.535	415	86
Minimum						182	76
Median						338	96
Average						329	97
Maximum						471	123

Source: Is Investment

IV. 6. Iskenderun Port

Port of Iskenderun is located in the north eastern part of Mediterranean Sea and serves to South and South East Anatolia Region, as well as the transit traffic to the Middle East countries. Iskenderun port ranks as 5th in freight loading/discharging volume among the ports in Turkey. The port does not have container handling facilities and mainly engaged in conventional cargo (dry and liquid bulk)

The trading volume in the port has been increasing with a high pace during the last decade and manage to grab more share in total ports' volume.

PSA—Akfen consortium is still interested in bidding for Iskenderun Port's new privatization tender

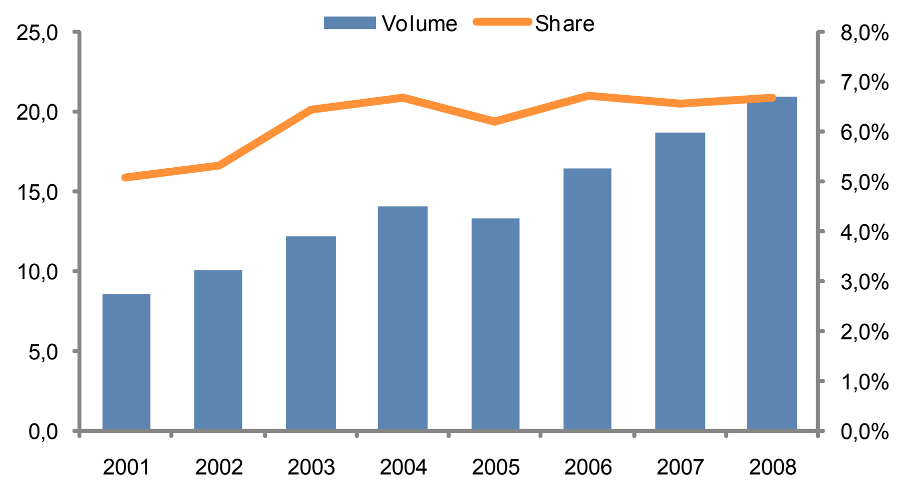
The tender for the privatization of Iskenderun Port was finalised in September 2005. PSA -Akfen consortium gave the highest bid for Iskenderun port with US$80mn, at the same time they bid for the Mersin port. However the tender for Iskenderun port was cancelled by the Council of State on December, 2006. The reason for the annulment decision was that PSA-Akfen, which acquired the TCDD Mersin Port as well, offered the highest bid and the Competition Board ruled that they could not acquire both ports at the same time.

The prime revnue item of the port is conventional cargo and no container has been handled for years because of the following reasons 1.maximum water depth in the port is around 5-6 meters and major dredging work at the port is vital for the passage of container ships if container business is targeted. 2. The port does not have any specific container equipment.

The port is now planned to be re-tendered in 2010. Akfen Holding is still interested in the tender. It is expected favorabe ruling from Competition Board to permit PSA-Akfen in joining privatization tender.

Figure 5: Freight Loading/Discharging Volume of Iskenderun Port

Freight Loading / Discharging Volume of Iskenderun Port (tons m)



Source: Undersecretariat of Maritime Affairs

V. Valuation

V. 1. Methodology

We have used sum of the parts (SOTP) method to value Akfen Holding. In arriving to the SOTP value we have used DCF analysis to value each asset. We deem DCF to be a more appropriate method in valuing each asset as opposed to a multiple based approach due to the following :

1) Long take-off period for projects : No cash flow or earnings from the projects until commercial operations. (Example: HEPP projects, BOT Airport projects, and water and waste water utilities projects)

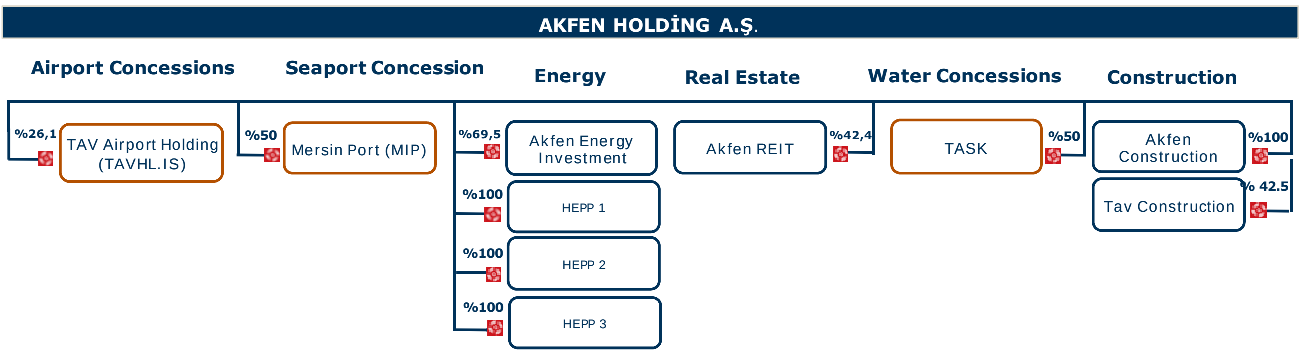
2) Long break even period at net income level : Capital intensive projects leading to high gearing and high interest rate require longer period for breakeven at the net income level. (Example : Airports, and HEPPs)

3) Long concession periods and economic lives in Akfen's businesses : Economic life of hydro electric power plants ranges in 30-40 years. Akfen and PSA secured a 36 years concession to operate Mersin International Port. Finally, the duration of airport concessions is around 20 years. Thus, a DCF which is ran over the concession period would better reflect project's value.

4) Lower risk profile vs other industrials or construction companies : Minimum guarantees in concession agreements (such as minimum passenger guarantees in airport operation and rent floor values at Akfen REIT for the first 15 years of operation in Russia), regulated nature of returns (fixed passenger fees at airports, regulated tariffs at TASK, minimum purchase guarantee for hydroelectric power plants) and monopolistic characteristics of businesses (airports, ports, water and waste water utilities) lower business risk making cash flows more predictable.

However, we have still compared implied earnings multiples for each asset with comparable peers' multiples as a realty check. On the other hand, we have also compared 3-5 years forward looking EV/EBITDA, P/BV and P/E multiples of Akfen Holding with international infrastructure companies, again as a reality check. We deem P/BV is an appropriate multiple in this case since equity determines companies' ability to finance high capital intensive infrastructure projects. On the other hand, companies operating higher growth emerging markets who can re-invest existing project cash flows into another value creating businesses should trade at a premium based on P/BV vis a vis developed market peers. Finally, growth adjusted P/E or EV/EBITDA multiples are more suitable than straight P/E or EV/EBITDA companies for infrastructure companies.

Figure 6: Akfen Holding Asset Breakdown



Source: Akfen Holding

V. 2 Sum of the Parts

Figure 7: Akfen Holding SOTP (US$ mn)

Akfen Holding SOTP (US$ mn)			Bear			Base			Bull		
Assets	Akfen Holding's Stake (%)	Valuation Method	Equity Value	Value Attributable to Akfen	% of Total NAV	Equity Value	Value Attributable to Akfen	% of Total NAV	Equity Value	Value Attributable to Akfen	% of Total NAV
TAV Airports (TAVHL.IS)	26%	DCF	**1,443**	**377**	**33%**	**1,709**	**446**	**28%**	**2,016**	**526**	**25%**
TAV Construction	43%	DCF	**518**	**220**	**19%**	**573**	**244**	**15%**	**754**	**320**	**15%**
Akfen Construction	100%	DCF	**76**	**76**	**7%**	**76**	**76**	**5%**	**76**	**76**	**4%**
Mersin International Port (MIP)	50%	DCF	**741**	**370**	**32%**	**1,078**	**539**	**34%**	**1,186**	**593**	**28%**
TASK Water and Waste Water	50%	DCF	**43**	**22**	**2%**	**43**	**22**	**1%**	**43**	**22**	**1%**
Power Plants			**252**	**252**	**22%**	**322**	**322**	**20%**	**707**	**613**	**29%**
HEPP - 1	100%	DCF	147	147	13%	186	186	12%	226	226	11%
HEPP - 2	100%	DCF	105	105	9%	137	137	9%	173	173	8%
HEPP - 3	100%	DCF		0	0%		0	0%		0	0%
Mersin CCGT	70%	DCF		0	0%		0	0%	308	214	10%
Akfen REIT *	42%	DCF	**206**	**87**	**8%**	**289**	**121**	**8%**	**352**	**148**	**7%**
Deferred payment for TUV Turk Sale				**0**	**0%**		**75**	**5%**		**75**	**4%**
Net Cash (debt)				**(251)**			**(251)**			**(251)**	
Total NAV				**1,152**			**1,594**			**2,122**	

Source: Is Investment

We have conducted a DCF analysis for each business under three different scenarios : bear, base and bull with varying assumptions for key DCF value drivers, which are summarized on the next page. Main drivers for the airport and port operation businesses are passenger and TEU growth figures, respectively. For hydroelectric power plant portfolio electricity price projections and production volumes are the main value drivers. In base case scenario we have used our house estimates for future electricity prices, while projections made by Deloitte for Akfen Holding are used in the best case scenario. Lastly, for Akfen REIT our scenarios assume differing increases in average daily room rates of hotels in each scenario. More details on the DCF model for each business can be found in related business segment sections of the report.

The planned 450 MW natural gas power plant to be build in Mersin is not included in the base case, as the license and the financing for the project have not been granted so far. The plant is targeted to be operational in 2013. The NPV of the power plant is included in our best case scenario in order to demonstrate potential upside from the project if it materializes, according to the plan.

We have also included the NPV of the deferred payment for TUV Turk sales in our base and best case scenarios. Akfen Holding successfully divested its 33% stake at TUV Turk and TUV Turk Istanbul along with its 100% stakes in Adana, Içel and Hatay franchises to the international private equity group Bridgepoint on October 2009. Moreover, the deal also includes a deferred payment of up to US$120mn in 2015, based on trigger tests on the aggregate revenues of the companies during 2012-2014 period. Accordingly, when % of the targeted revenue is achieved:

- more than or equal to 90%, Akfen Holding will receive US$120 mn.
- between 80% and 90%, Akfen Holding will be entitled to receive US$12mn for each percent exceeding 80%.
- equal to 80% or less, there will not be a payment to Akfen Holding

Looking at the existing operating performance of the vehicle inspection business, capture rates and revenue development exceeding initial plans, Akfen Holding management is confident that the revenue targets to receive US$120mn deferred payment in 2015 will be achieved. At the base and best case scenarios we have assumed that TUV Turk will achieve at least 90% of the targeted 2012-2014 revenues, receiving US$120mn in 2015, corresponding to an NPV of US$75mn. At worst case scenario the company receives no deferred payment regarding TUV Turk sale. Consequently, we arrived to an NAV in the range of US$1,152mn to US$2,122mn under three different scenarios.

General assumptions of our DCF models are listed below, while more detailed assumptions regarding business segments can be found in the related sections in the remainder of the report.

Figure 9: General Assumptions used in DCF models

General Assumptions used in DCF models and Financial Projections	2009	2010E	2011E	2012E	2013E	2014E
CPI Inflation (average)	6.2	6.8	7.3	7.8	7.3	6.0
GDP growth	-5.7	4.3	5.0	6.0	5.0	4.0
TL/$ (average)	1.57	1.56	1.63	1.73	1.85	1.96
TL/$ (eop)	1.49	1.55	1.66	1.80	1.91	2.01
$/€ (average)	1.38	1.38	1.37	1.37	1.35	1.34
Population (mn)	72.6	73.4	74.3	75.2	76.1	77.0
GDP per capita ($)	8440	9482	9992	10475	10881	11218
Average oil price ($/bbl)	62.0	75.0	75.0	75.0	75.0	75.0
Average natural gas prices (TL/m3)	0.56	0.58	0.58	0.58	0.58	0.58
Average natural gas prices ($/m3)	0.36	0.38	0.38	0.38	0.38	0.38
Electricty Price (SBP TL/KWh)	12.61	17.57	18.92	20.27	21.41	22.42
Electricity Price (SBP Usc/KWh)	8.04	11.24	11.59	11.71	11.55	11.44
Electricity Price (€cent/KWh)	8.83	9.53	9.67	9.82	9.93	10.00
Risk Free Rate ($)		6%	6%	6%	6%	6%
Risk Free Rate (€)		5%	5%	5%	5%	5%
Equity Risk Premium		5%	5%	5%	5%	5%

Source: Is Investment

We have also calculated implied forward looking EV/EBITDA and P/E multiples based on DCF valuations of TAV Airports, Mersin International Port, HEP portfolio, and TASK, comparing these with trading multiples of domestic and foreign peers. For the HEPP portfolio, DCF implied EV/EBITDA multiples are in line with domestic peer multiples in the base case. Similarly, TAV Airports base case implied multiples are nearly in line with international peer averages. Finally, the DCF implied 2011 EV/EBITDA multiple of Mersin International Port at 15.6x is at a premium compared to the median of the international peer multiples at 10.6x. However, considering that the ports current capacity at 1.2mn TEUs is projected to increase to 4.2 mn TEUs in 2026, near term EBITDA multiples do not capture the future growth potential of the port.

Key DCF Drivers and Scenario Assumptions	
TAV Airports	TAV Airports' valuation is very sensitive to the number of passengers. A 1% increase/decrease in our passenger growth forecasts, with the assumption of same EBITDAR margins, would increase/decrease our target value by 18% to TL9.2/share and TL6.6/share from our current 12-month target value of TL7.8/share.
TAV Construction	New Project Additions in **base case** : Kuwait International Airport-Civil Works, KUWAIT, Oman-Muscat International Airport/Building Works (MC-3), Oman , Skopje, Shtip & Ohrid Airport Construction& Renovation Works, Macedonia **In bull case**, on top of base case projects the company obtains the following with 50% probability: Sharjah Int. Airport ,UEA, Abu Dhabi International Airport Pile Caps&Ass. Works, UAE, Abu Dhabi International Airport Utility Works Pack., UAE, Madina Prince M. Bin Abdulaziz Airport , Saudi Arabia Abu Dhabi International Airport Midfield Terminal Complex, UAE In bear **case terminal growth** after 2013 is 2%, as opposed to 3% in base and bull cases, all else being same as base case
Mersin International Port	WACC changes between 8.4% - 11% in all three scenarios. Base: GDP multiplier of 2x during 2011-2020, falling to 1.5x during 2021- 2030, to 1x 2030- Max Capacity 4.2 mn TEU (reached in 2026) Bull : GDP multiplier 2x during the projection period capacity goes up to 4.8 mn TEU in 2026 (reached in 2026) Bear: GDP multiplier 1.5x during 2011-2020 (2010:950 mn TEU), falling to 1x during 2021 - capacity increase to 4.2 mn TEU (reached in 2033) Other methods used : Foreign trade vs TEU growth correlation, Convergence to developed country levels in Population/TEU
HEPPS	Electricity Price Assumptions: Base: 5.8€ cent in 2010 to 8.4€ cent in 2017 Bull: 7.3€ cent in 2010 to 9.7 € cent in 2021 (Deloitte Report base case) Bear: Same as base case prices with 10% lower than expected electricity production
Akfen REIT	Base: ADR increases by 4% in the first 4 years of operation 2% p.a. in the next 4 years of operation in euro terms and remains constant thereafter Bull : We have increased prices 4% in euro terms each year Bear: ADR prices are constant risk free rate of 5% for Turkey projections 5% for Russia and 6% ERP for both

Figure 10: DCF Implied Multiples

DCF Implied Multiples	Bear			Base			Bull		
	10E EV/EBITDA	11E EV/EBITDA	12E EV/EBITDA	10E EV/EBITDA	11E EV/EBITDA	12E EV/EBITDA	10E EV/EBITDA	11E EV/EBITDA	12E EV/EBITDA
TAV Airports (TAVHL.IS)	9.4	8.4	7.4	10.3	9.3	8.1	11.4	10.2	9.0
TAV Construction	6.7	4.0	6.4	7.3	4.4	7.0	6.3	4.1	6.2
Akfen Construction	7.5	7.4	8.4	7.5	7.4	8.4	7.5	7.4	8.4
Mersin International Port (MIP)	13.6	11.1	9.4	16.1	15.6	14.9	17.1	13.7	11.5
TASK Water and Waste Water	16.0	8.6	7.4	16.0	8.6	7.4	16.0	8.6	7.4
Power Plants									
HEPP - 1	n.m.	7.5	6.6	n.m.	6.5	5.5	n.m.	7.4	6.2
HEPP - 2	n.m.	n.m.	6.2	n.m.	n.m.	6.2	n.m.	n.m.	6.8
HEPP - 3									
Akfen REIT *	31.6	20.3	14.9	40.0	25.2	18.4	41.9	26.1	18.9
Comparable Dom. / Int Peers									
Mersin Port Peer Group	12.2	10.6	9.8	12.2	10.6	9.8	12.2	10.6	9.8
HEPP Peer Group - Int'l	6.3	6.0	5.5	6.3	6.0	5.5	6.3	6.0	5.5
HEPP Peer Group - Domestic	11.8	7.8	6.8	11.8	7.8	6.8	11.8	7.8	6.8
ENKAI	8.9	8.5	7.8	8.9	8.5	7.8	8.9	8.5	7.8
TKFEN	7.8	6.8	6.7	7.8	6.8	6.7	7.8	6.8	6.7
TAVHL Int'l Peers	9.5	8.3	8	9.5	8.3	8	9.5	8.3	8
CLEBI	5.6	4.8	5.3	5.6	4.8	5.3	5.6	4.8	5.3

Source: Is Investment & Bloomberg

V. 3. Peer Group Multiple Comparison

We have also run a peer multiple comparison analysis for Akfen Holding based on 2010-2014E EV/EBITDA and P/E multiples of infrastructure companies in emerging and developed economies. The purpose of using 4 years forward multiples is to account for differing growth prospects of companies in the peer group. Accordingly, the implied value based on median 2011-2014E EV/EBITDA multiples of all peers averages ranges between US$757mn-US$1,027mn, while the implied valuation range based on only emerging peers is US$961mn-US$1,410mn. On the other hand, a similar analysis based on 2011E-2014E P/E multiples of all peers yield an implied equity value range of US$724mn–US$1,544mn, while restricting the peer group to only emerging infrastructure peers yields a range of US$618mn—US$1,536mn.

Figure 11: Peer Group Multiple Comparison

	Mcap (US$ mn)	10E P/E	11E P/E	12E P/E	13E P/E	14E P/E	10E EV/EBITDA	11E EV/EBITDA	12E EV/EBITDA	13E EV/EBITDA	14E EV/EBITDA
GMR Infrastructure	5067	137.4	73.1	51.4	21.8	20.1	16.6	11.1	10.0	6.1	5.5
Reliance Infrastructure	5611	18.5	16.8	15.0	14.4	14.2	28.3	23.4	21.2	21.5	26.2
IRB Infra	2175	26.9	19.3	16.6	17.0	13.3	10.4	7.6	6.1	6.1	5.4
Lanco Infratech	2939	24.9	12.3	10.1	5.9	3.7	9.8	4.3	3.4	2.2	1.5
Acciona	7189	23.8	18.2	15.4	13.2	--	9.8	8.5	7.4	6.7	--
Aecon	756	15.3	11.8	12.6	--	--	6.5	5.6	5.6	--	--
Astaldi	742	8.7	7.5	6.3	5.7	5.5	4.6	4.1	3.7	3.5	3.4
Erainfa	926	16.8	12.4	9.9	--	--	9.2	6.9	5.4	--	--
Macquarie	660	940.0	39.7	19.6	--	--	10.0	9.5	9.0	--	--
Macquarie Korea	1417	13.6	13.2	13.1	--	n.a	13.0	12.4	11.0	--	n.a
Emerging Peers											
Average		**51.9**	**30.4**	**23.3**	**14.8**	**12.8**	**16.3**	**11.6**	**10.2**	**9.0**	**9.7**
Median		**25.9**	**18.0**	**15.8**	**15.7**	**13.7**	**13.5**	**9.4**	**8.0**	**6.1**	**5.5**
All Peers											
Average		122.6	22.4	17.0	13.0	11.4	11.8	9.3	8.3	7.7	8.4
Median		21.1	15.0	14.1	13.8	13.3	9.9	8.1	6.8	6.1	5.4
Akfen implied Equity Value (US$ mn)											
@ Median multiple of Emerging Peers			618	1,188	1,532	1,536	743	1,079	1,410	961	1,004
@Median of All Peers			724	1,127	1,370	1,544	213	756	1,027	961	984

V. 4 What about holding discount ?

Holding companies listed on the ISE currently trade at 24% discount on average to their estimated target NAVs. Past five years data show a wide fluctuation in the discount rates which averaged around 7%. Holding companies focusing on quite a few segments, such as Tekfen Holding <TKFEN.IS> and Enka Holding <ENKA.IS>, trade with a narrower discounts to their target NAVs, currently at 16% and 20%, respectively.

In Akfen Holding's case, we argue that the holding should trade at a relatively small discount to its NAV due to the following arguments :

1. **Have either joint or full control in businesses.** Akfen, together with TEPE Group, controls the majority at both TAV Airports holding and TAV construction while having majority control at the HEPP portfolio and REIT. On the assumption that both Akfen and TEPE groups would act together, possible controlling stake sales are likely to include a premium.
2. **The holding offers a common platform and human resources**: This adds value to underlying businesses, while making financing of new projects easier. Thus, it should not deserve a discount to its NAV.
3. **Actively managed portfolio and proven value creation track record**,: Successful origination, execution and exit track record of Akfen Holding, as best demonstrated by the exit case of TUV Turk is an important factor limiting the discount to NAV.

Figure 12: IS Listed Holdings NAV prem/ (disc)

ISE Listed Holdings NAV prem / (disc)				
	Current	% Historic prem / (disc)		
	% Prem / (disc)	Min	Average	Max
Tekfen Holding	-15,8	-1,0	-21,3	-40,2
Enka Holding	-20,2	46,8	-1,5	-73,2
Alarko Holding	-26,1	49,9	-13,4	-66,6
Sabancı Holding	-33,9	8,3	-28,1	-59,4
Koç Holding	-23,5	12,4	28,2	-78,9
Average	**-23,9**		**-7,2**	

Akfen Holidng (US$ mn)	Bear	Base	Bull
NAV After average holding disc (-24%)	877	1.213	1.615
NAV w hen TAV Airports is accounted at Market Value	1.170	1.543	1.991
NAV w /o disc	1.152	1.594	2.122

Source: Is Investment

However, It is worth nothing that at least the listed part of Akfen Holding's NAV, namely the 26.1% stake at TAV Airports Holding <TAVHL.IS>, may lead to a an NAV discount, as investors have a tendency to value listed participations at market values. Same thing may hold true for the REIT, in case it becomes public as required by regulations.

V. 5 Consolidated Financials Analysis

Revenues: TAV Construction and TAV Airports have the highest share in Akfen Holding's consolidated revenues in 2009. While TAV construction's revenues are expected to decline at a CAGR of -22% between 2009-2014, with a conservative assumption that no new major project will be added to the backlog. it will be replaced with the revenue growth in hydro power plants and Mersin Port. Note that all of the HEPP projects undertaken by the holding will become operational by 2014.

Figure 13: Akfen Holding– Segmental Breakdown of Revenues

Segment Revenues (US$ mn))	2009	2010E	2011E	2012E	2013E	2014E	CAGR
TAV Construction	258	573	578	511	253	213	-22%
Akfen Construction	7	2	0	0	1	1	-32%
Akfen REIT	11	14	20	25	32	41	29%
HEPP	1	2	61	120	120	124	188%
MIP	76	92	107	119	128	136	13%
TASK	5	3	5	5	5	6	3%
TAV Airports	259	262	267	292	309	324	5%
Others	41	2	2	2	2	2	-48%
Total	**657**	**949**	**1039**	**1072**	**850**	**846**	**5%**

Source: Company & IS Investment Estimates

EBITDA: Akfen Holding's consolidated EBITDA should more than triple to US$330mn in 2014 from US$63mn in 2009 thanks to the favorable contribution of the HEPP projects starting from 2011. Hydropower plants' share in total EBITDA of the holding will reach 32% in 2014 from null (-US$2 mn) in 2010. Other important contributors to the EBITDA would be MIP and TAV Airports, which will are expected to witness respective CAGRs of 17% each for 2010-2014 period.

Figure 14: Akfen Holding– Segmental Breakdown of EBITDA

Segment EBITDA (US$ mn)	2009	2010E	2011E	2012E	2013E	2014E	CAGR
TAV Construction	15	35	60	42	22	19	5%
Akfen Construction	-4	12	11	9	9	2	n.m.
Akfen REIT	8	10	15	20	26	34	34%
HEPP	-1	-2	49	102	102	107	n.m.
MIP	39	52	63	72	79	85	17%
TASK	0	1	3	3	3	3	n.m.
TAV Airports	39	49	57	71	79	84	17%
Others	-32	-3	-3	-3	-3	-3	n.m.
Total	**63**	**154**	**256**	**316**	**316**	**330**	**39%**

Source: Company & IS Investment Estimates

PBT: Mersin Port is expected to perform the highest PBT growth among other companies in Akfen Holding's portfolio thanks to the planned capacity expansions and improvement in tariff structure. Consolidated PBT is set to reach US$187mn level by 2014 as a result of the completion of the major investment projects like the HEPP investment and decline in financial expenses.

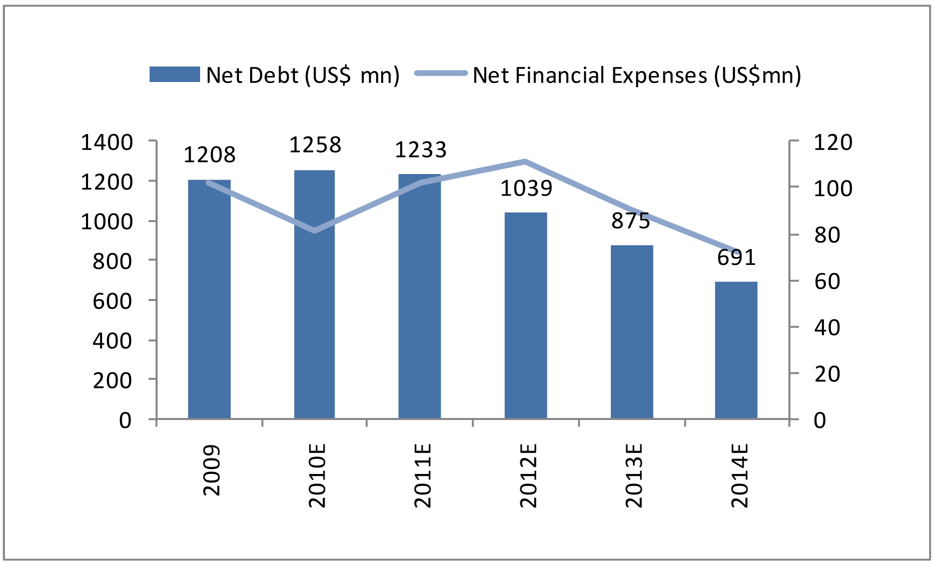
Figure 15: Akfen Holding– Segmental Breakdown of PBT

Segment PBT (US$ mn)	2009	2010E	2011E	2012E	2013E	2014E	CAGR
TAV Construction	9	30	56	40	22	21	19%
Akfen Construction	-6	12	11	8	8	1	n.m.
Akfen REIT	10	1	8	13	20	30	25%
HEPP	-4	-3	-4	11	26	41	n.m.
MIP	7	19	28	37	45	52	51%
TASK	0	2	3	3	3	3	n.m.
TAV Airports	16	18	28	44	54	62	31%
Others	61	-36	-31	-26	-25	-23	n.m.
Total	92	41	98	130	154	187	n.m.

Source: Company & IS Investment Estimates

Financial Expenses & Net Debt Position: According to our estimates, which foresee remarkable improvement in operational performance in underlying assets, Akfen Holding will be able to reduce its net debt position significantly from US$1.2bn in 2009 down to US$0.7bn in 2014. Net financial expenses will also decline from US$102mn in 2009 to US$74mn in line with the decline in net debt position

Figure 16: Akfen Holding– Financial Expenses and Debt Position



Source: Company & IS Investment Estimates

Capex: The Holding is expected to invest a total of US$436mn between 2010-2014, of which the majority portion (38%) will come from HEPP investments. consolidated capex declines to negligible levels starting from 2012 since most of the capacity expansion and greenfield investments will be completed by then. This figures exclude Laleli and Mersin CGT investments.

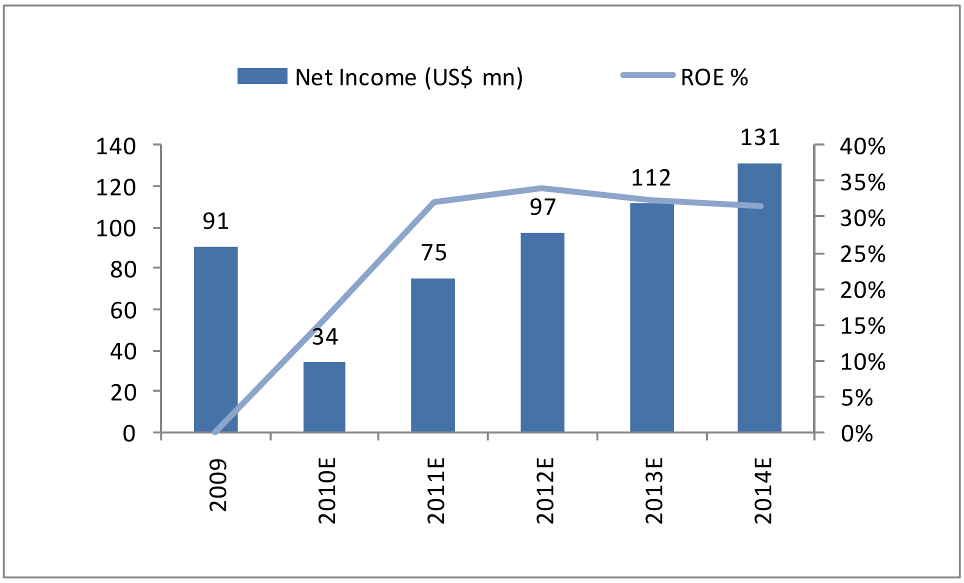
Figure 17: Akfen Holding– Capex

	2010E	2011E	2012E	2013E	2014E
Cap-ex (US$ mn)	235	96	49	28	29

Source: Company & IS Investment Estimates

Net Income & ROE: Thanks to the low equity contribution of its investments, which is one of the major investment strategies of the holding, Akfen Holding's ROE is expected to average at 32% for 2010-2014 period. We forecast the holding to post US$32mn of net income in 2010, down from the US$91mn of net income in 2009. The consolidated bottom line figure should tap US$130 mn in 2014, for which the major contributors are mentioned in the PBT section.

Figure 18: Akfen Holding– Net Income and ROE



Source: Company & IS Investment Estimates

Loan Structure: Akfen Holding carries US$1.5bn of financial loans as of YE09, of which only US$0.2bn short –term (a significant portion of which consists from the short term portion of the long term debt). TAV Airports and MIP have the lion's share in total debt position of the holding with ca.60%. Consolidated debt of the holding will fall to US$1.1bn by the end 2014, signifying a relatively slow pace compared to the rapid decline in net debt position since most of these are long term project finance deals

Figure 19: Akfen Holding– Segmental Breakdown of Loans

Breakdown of Debt (US$mn)	2009	2010E	2011E	2012E	2013E	2014E
TAV Construction	45	43	40	37	35	33
Akfen Construction	40	43	39	33	32	26
Akfen REIT	125	113	100	85	58	35
HEPP	77	424	384	353	306	260
MIP	346	342	322	304	292	282
TASK	3	5	7	5	4	5
TAV Airports	482	388	346	301	256	218
Holding and Others	357	321	237	220	207	197
Total	**1474**	**1679**	**1475**	**1338**	**1190**	**1057**
ST Debt	**192**	**236**	**238**	**233**	**241**	**226**
LT Debt	**1282**	**1444**	**1236**	**1104**	**949**	**831**

Source: Company & IS Investment Estimates

Figure 20: Summary of Key Financials for Akfen Holding

Income Statement (TL mn)	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E
Revenues	698	849	1,029	1,483	1,697	1,856	1,575	1,658
EBITDA	45	123	98	241	418	547	587	647
Depreciation & Amortisation	25	41	45	45	87	125	130	136
EBIT	20	82	54	196	331	422	457	511
Other income (expense), net	253	125	237	0	0	0	0	0
Financial expenses, net	(46)	(233)	(147)	(127)	(166)	(193)	(167)	(140)
Minority Interests	0	0	0	1	6	10	17	27
Income before tax	228	(26)	144	69	164	230	290	370
Taxation on Income	(11)	(11)	(17)	(14)	(35)	(50)	(65)	(86)
Net income	230	(45)	142	54	123	169	207	258
Cash Flow Statement (TL mn)								
Net Income	n.a.	(45)	142	54	123	169	207	258
Depreciation & Amortisation	n.a.	41	45	45	87	125	130	136
Change in Working Capital	n.a.	(137)	63	144	(15)	(28)	(80)	(60)
Cash Flow from Operations	n.a.	(139)	250	242	195	266	257	334
Capital Expenditure	n.a.	622	(60)	456	284	82	56	55
Free Cash Flow	n.a.	(761)	310	(214)	(89)	184	200	279
Rights Issue	n.a.	0	0	0	0	0	0	0
Dividends Paid	n.a.	0	0	0	0	0	0	0
Other Cash Inflow (Outflow)	n.a.	167	(396)	51	(1)	19	24	50
Change in net cash	n.a.	(594)	(87)	(163)	(90)	203	224	329
Net Cash	n.a.	(1,847)	(1,934)	(2,097)	(2,187)	(1,984)	(1,760)	(1,431)
Balance Sheet (TL mn)								
Tangible Fixed Assets	82	239	306	791	1,021	951	865	784
Other Long Term Assets	102	116	162	235	255	262	273	271
Intangibles	906	1,331	1,159	1,086	1,053	1,080	1,093	1,093
Investment Property	304	469	532	534	536	538	541	543
Inventories	10	32	46	49	52	56	61	64
Trade receivables	402	622	634	579	581	578	563	620
Cash & equivalents	80	108	286	506	268	419	514	689
Other current assets	23	40	29	30	30	30	30	30
Total assets	2,051	3,156	3,322	3,866	3,852	3,972	3,996	4,151
Long-term debt	961	1,293	1,930	2,238	2,058	1,984	1,813	1,667
Other long-term liabilities	100	521	126	131	136	143	149	155
Short-term debt	372	661	289	365	397	419	461	453
Trade payables	148	253	341	434	424	398	306	308
Other short-term liabilities	56	85	91	98	105	113	121	128
Total liabilities	1,637	2,816	2,793	3,265	3,120	3,056	2,850	2,710
Minority Interest	133	195	180	199	207	221	244	281
Total equity	282	146	349	403	526	694	902	1,159
Paid-in capital	55	55	92	92	92	92	92	92
Total liabilities & equity	2,051	3,156	3,322	3,866	3,852	3,972	3,996	4,151
Ratios								
ROE (%)	121.7	-21.2	57.4	14.2	26.5	27.7	26.0	25.0
ROIC (%)	1.3	4.1	2.3	8.1	12.1	14.8	16.1	18.0
Invested Capital	1,253	1,971	1,804	2,071	2,283	2,268	2,275	2,254
Net debt/EBITDA (x)	n.a.	15.1	19.7	8.7	5.24	3.6	3.0	2.2
Net debt/Equity (%)	n.a.	1267%	554%	521%	416%	286%	195%	123%
Capex/Sales (%)	n.a.	73.2	-5.8	30.7	16.8	4.4	3.6	3.3
Capex/Depreciation (x)	n.a.	15.3	-1.3	10.2	3.3	0.7	0.4	0.4
EBITDA Margin	6.5	14.4	9.5	16.2	24.6	29.5	37.2	39.0
EBIT Margin	2.9	9.6	5.2	13.2	19.5	22.8	29.0	30.8
Net Margin	33.0	-5.3	13.8	3.6	7.2	9.1	13.2	15.5

Source: IS Investment

VI. Segment Analysis

VI.1. TAV Airports

VI.1.1 Business Overview

TAV Airports was established in 1997 for the purpose of reconstructing the Istanbul. Atatürk Airport (International Terminal) and operated it until 2 July 2005. With a market share of 48% based on General Directorate of State Airports Authority data, TAV Airports Holding is the leading airport operator in Turkey, managing three of the largest four airport terminals. TAV operates Istanbul Ataturk Airport International, Domestic and General Aviation Terminals (one of the busiest in Europe, and the hub of Turkish Airlines), Ankara Esenboga Domestic and International Terminals, Izmir Adnan Menderes Airport International Terminal and Antalya Gazipasa Airport in Turkey; the Tbilisi and Batumi Airports in Georgia; the Monastir Habib Bourguiba International Airport and Enfidha Zine Abidine Ben Ali Airport in Tunisia; Alexander the Great Airport in the capital Skopje and St Paul the Apostle International Airport in Ohrid in Macedonia

Figure 21: TAV Airport Concessions and BOT Agreements

Current Airport Contract Portfolio	Type	Duration	Scope	TAV's Stake	Operations began	Intl Fee per pax	Dom. Fee per pax	Name of subsidiary
Istanbul Ataturk	Operation right by way of lease	Jan-21	Intl + Dom.	100%	Jul-05	US$15	EUR3	TAV Istanbul
Ankara Esenboga	BOT	May-23	Intl + Dom.	100%	Oct-06	EUR15	EUR3	TAV Esenboga
Izmir A. Menderes	BOT	Jan-15	Intl.	100%	Sep-06	EUR15	-	TAV Izmir
Antalya Gazipasa	Operation right by way of lease	May-34	Intl.+Dom	100%	Jul-09	EUR5	TL4	TAV Gazipasa
Tbilisi Intl	BOT	Feb-27	Intl + Dom.	66%	Feb-07	US$22.8 in 09 +2% p.a	US$6	TAV Georgia
Batumi	100% management rights of the wholly state owned airport	Aug-27	Intl + Dom.	60%	May-07	US$12	US$7	TAV Georgia
Monastir	BOT+ Concession	May-47	Intl + Dom.	67%	Jan-08	EUR9	EUR9	TAV Tunisie
Enfidha	BOT+ Concession	May-47	Intl + Dom.	67%	Dec-09	EUR9	EUR9	TAV Tunisie
Skopje	Concession	Mar-30	Intl + Dom.	100%	Mar-10	EUR17.5	-	TAV Macedonia Dooel Petrovec
Ohrid	Concession	Mar-30	Intl	100%	Mar-10	EUR16.2	-	TAV Macedonia Dooel Petrovec

Source: TAV Airports

TAV operates in other segments of airport operations, such as duty free sales through ATU, food and beverage services through BTA, ground handling services through Havas and TGS (TGS is jointly owned by Havas and Turkish Airlines), information technologies, security and operation services. TAV served 0.4mn flights for approximately 300 airline companies and 42.1mn passengers in 2009.

Figure 22: Revenue Sources

Revenue Sources		Aeronautical Charges					Non-aeronautical Charges		
		Passenger Fee	Ground Handling	Landing	Parking	Fuel	Duty-free	F&B	Car Park
Turkey	Istanbul	x					x	x	x
	Esenboga	x					x	x	x
	Izmir	x					x	x	x
	Gazipasa	x		x	x		x	x	x
Tunisia	Enfidha	x	x	x	x		x	x	x
	Monastir	x	x	x	x		x	x	x
Georgia	Tblisi	x	x	x	x	x	x	x	x
	Batumi	x	x	x	x	x	x	x	x
Macedonia	Skopje	x	x	x	x		x	x	x
	Ohrid	x	x	x	x		x	x	x

Source: TAV Airports

TAV Istanbul : Istanbul Ataturk Airport

In 1997, TAV Airports Holding was established by Tepe and Akfen groups as a JV who were qualified for the build-operate-transfer (BOT) tender of the Istanbul Ataturk Airport International Terminal, and commenced the operations at the terminal in January 2000. Upon expiration of the BOT contract in July 2005, TAV Airports Holding upon being awarded by the State Airports Authority's (SAA) new tender established TAV Istanbul which signed an agreement for granting of operation rights by way of lease with the State Airports Authority to operate both the domestic and international terminals of the airport for 15.5 years until January 2021.

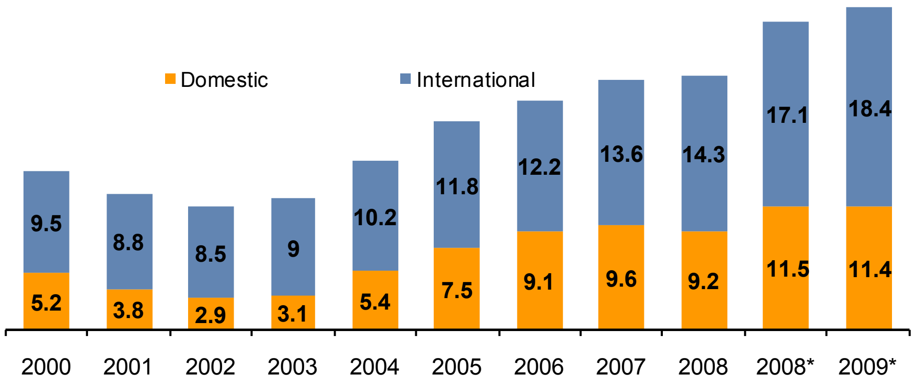
Total rental fee agreed upon was US$2.5bn+18% VAT to be paid as US$585mn+VAT in advance plus annual payments of US$140mn+VAT until the end of the concession period. An addendum was signed between the sides in November 2008 under the name of Ataturk Airport Development Project, which involves the construction of new docking positions and requires TAV to invest approximately EUR36 mn.

In 2007, Limak Insaat-GMR Infrastructure and Malaysia Airport Holding Berhad consortium submitted the highest offer of EUR1.9bn and qualified for the 20-year BOT tender at Sabiha Gokcen Airport, located on the Asian side of Istanbul. Current capacity of the airport is 25mn passengers. With a total of 6.5mn pax, and Sabiha Gokcen's passenger figures accounted for 4.5% in domestic and 11% in international pax in Turkey in 2009.

Istanbul Airport is the primary contributor to TAV's consolidated financials with respective 34% and 38% shares in consolidated revenues and EBITDA in 2009 (%'s pre-eliminations).

Currently, Istanbul Airport is the largest airport in Turkey with a 35% share in Turkey's total passenger traffic. The airport is the main hub of Turkish flag carrier Turkish Airlines.

Figure 23: Domestic and International Passengers



Source: State Airports Authority (SAA)

** includes transit & transfer*

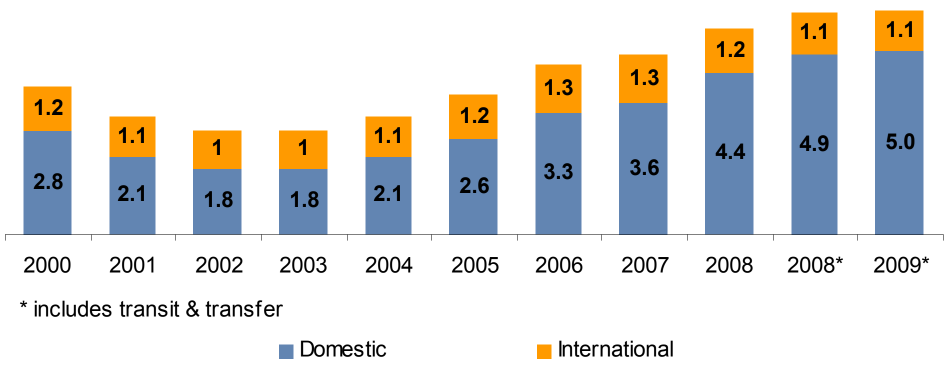
Taking into account that more than 80% of Turkish Airlines' passenger traffic is based in Istanbul Airport, TAV Istanbul will be the main beneficiary of Turkish Airlines' aggressive fleet expansion. The airport has a capacity of 27.5mn passengers, of which nearly 75% is international, however, according to the management, we could say that the actual capacity is around 45mn. The airport will be ready to handle more than 50m passengers per annum, with the completion of SAA's investments on the air side.

Istanbul's increasing importance as a hub in this region also offers a strong growth potential for increasing transit traffic, which is quite underpenetrated at the moment. Though we acknowledge that the SAA does not disclose the number of transit &transfer passengers at the airport, we believe that transfer passengers could be around 2.7mn in 2009. It is also worthwhile to note that Turkish Airlines has been increasing its transit passenger base strongly with the entry into Star Alliance in April 2008.

TAV Esenboğa

Ankara, the capital of Turkey is the secondary hub of Turkish Airlines. Tepe and Akfen groups who won the BOT tender to construct and operate the domestic and international terminal in 2004 established TAV Esenboga, and starting from October 2006, TAV Esenboğa has the rights to operate the domestic and international terminal until 2023. The airport has a capacity of 10mn passengers.

Figure 24: Ankara Esenboga Airport Passenger Numbers

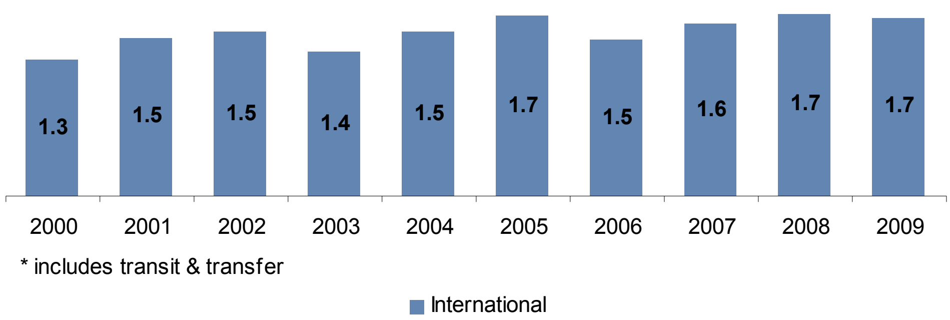


Source: SAA

TAV Izmir

TAV has been operational in Izmir Airport's international terminal since September 2006, holding the right until January 2015. Being the 3rd largest city in Turkey, with proximity to tourist regions, Izmir has the potential for further growth in tourism.

Figure 25: Izmir Adnan Menderes Airport International Terminal Passenger Numbers



Source: SAA

TAV Gazipasa (Alanya)

After winning the right to operate Gazipasa Airport in 2007 for 25 years, TAV was ready to start operations in July 2009, however, according to State Airport Authority's figures, there were no passengers in Gazipasa Airport in 2009, and the first 2 months of 2010. The airport has a capacity 0.5mn passengers. International and domestic passenger fees are EUR5/pax and TL4/pax, respectively. Gazipasa is located 180 km from Antalya and 40 km from Alanya, both of which are touristic cities on the Mediterranean coast of Turkey. Annual Concession fee for gazipasa is 50.000 Usd + vat.

HAVAS—Ground Handling Services

Founded in 1933 by the Turkish state, and reaching its recent status in 1987 after its privatization, Havas is Turkey's first and currently the leading ground handling services provider in Turkey, operating in 19 airports. In 3Q08, Turkish Airlines (THY) established Turkish Ground Services (TGS), which is incorporated on 20 August 2008 to serve ground handling services to THY flights and third parties. After negotiating with potential strategic partners willing to invest in a 50% stake in this subsidiary, Turkish Airlines decided to partner with Havas in this business. .

TGS serves at five airports in Turkey, namely Istanbul Ataturk, Ankara Esenboga, Izmir A.Menderes, Antalya and Adana. These airports accounted for around 75% of both passenger and aircraft traffic in 2009. TGS holds the Type A license, which will enable it to serve to THY and other third parties. TGS provides all ground handling services in these airports. We have not yet incorporated TGS in our valuation and expect TAV to announce more detailed results on TGS in its 1Q10 financial results.

HAVAS' transaction value

TAV had acquired 60% of Havas for US$125mn in 2005, and the remaining 40% stake for US$115 mn in October 2007, increasing its ownership to 100%, implying respective values of EUR187mn and EUR200mn for Havas in those years. In order to reduce its debt, in July 09, TAV announced that it is planning for partnerships in Havas. In March 2010, TAV finalised the deal to sell Havas to a joint stock company founded for a consideration of EUR180 mn. TAV holds a 65% stake in the new company, as HSBC Investment Bank Holdings PLS and Is Private Equity respectively have 28.33% and 6.67% stakes. TAV injected EUR78mn in the new joint stock company, translating into a 2:1 Equity-Debt capital structure. With total revenues of EUR126mn, Havas' EBITDA margin was 19% in 2009.

Potential Investments

Latvia –Riga

In March 2009, TAV-Skonto Buve (Latvian construction company) Consortium were the preferred bidders at the tender held for the infrastructure development and operation of Latvia's capital Riga's International Airport terminal. In October 2009, the tender was cancelled by the Latvian Government due to changing economic conditions. The Cabinet of Ministers of Latvia assigned the SJSC Riga Intl Airport Management to find a solution for a new development plan involving airlines, which will provide transit passenger services at Riga Intl Airport. In accordance with this new strategy, TAV initiated partnership negotiations with Air Baltic, the flag carrier airline company of Latvia, to operate a new terminal that will meet the requirements of Air Baltic in Riga International Airport. Riga International Airport served around 4 million passengers in 2009.

Male International Airport

In April 2010, TAV teamed up with Aeroports de Paris Management (ADPM), a subsidiary of ADP, to bid for the Male Intl Airport, in the capital city of Maldives, tender. Initially, Maldives' government had revealed that 19 parties expressed interest following the announcement of tender for the development of Male Intl Airport under a JV. Male Intl Airport served close to 1.5m international passengers in 2009 through 11,000 flights.

Other Tenders/Investments

According to statements made by TAV Airports' CEO, Havas' IPO could be made within 2-3 years and that TAV is interested in bidding for the Medina Airport in Saudi Arabia along with the Saudi conglomerate Al-Rajhi Group. The Company aims to reach 100mn passengers by 2020, as compared to our forecast of 73.4mn, the remaining part of which is expected to come from inorganic growth.

Financial Analysis

In our valuation, the revenue and EBITDA and EBITDAR figures include guaranteed passenger revenues, although these figures should not be included in the income statement, according to IFRIC12. Thus, we have excluded these figures generated through guaranteed passengers when we consolidated TAV Airports Holding into Akfen Holding as well as some other adjustments which exclude TAV Construction's contribution. EBITDAR is the sum of EBITDA plus concessions fees. The cash and equivalents figure in the balance sheet also includes other short term trade receivables which are mainly composed of blocked bank deposits.

TAV's revenues are generated through passenger fees in the airports that it operates, landing aircraft fees (not in Turkey), duty free, catering, ground handling services and others such as IT and security services. Thus, the revenues are highly dependent on passenger figures. TAV Istanbul accounted for 34% of total revenues in 2009, while the runner up was duty free services, accounting for 19%. In terms of profitability, TAV Istanbul still accounted for the lion's share in EBITDA, with 38%, while the remaining airports accounted for 24% in 2009.

FY09 revenues include EUR9mn gain from the sale of 15% of TAV Tunisie

Consolidated revenues of EUR640mn in FY09 include the EUR9mn net gain from the 15% stake sale of TAV Tunisie. Overall EBITDAR margin was a higher 48.6% in FY09 as compared to 47.3% in FY08 thanks to better margins at the services segment. The TAV's FY09 net income was EUR51.5mn and included deferred tax benefits of EUR8.4mn due to the recognition of previously unrecognized investment incentives of TAV Esenboga and TAV Izmir. Revenues derived from Airports were nearly flat at EUR377mn in FY09, while services revenues grew 3% to EUR396mn. Despite the 6% pax increase in TAV Turkey's international traffic, duty free revenues declined 4% YoY to EUR145mn in FY09 as a result of limitations on duty free purchases introduced in October 09. In fact, TAV reported that duty free spend per pax declined 8% YoY to EUR16 in Istanbul in 2009, while that for Ankara remained nearly flat at EUR13.7, yet decreased 8% to EUR10.7 in Izmir. Net debt was EUR941mn at the end of 2009. The cash proceeds from Havas sale (EUR102mn) and 18% of TAV Tunisie (EUR40mn) are not recorded in FY09 financials. The revenue breakdown did not change much with TAV Istanbul and other airports still accounting for 34% and 15% of revenues, respectively, while the share of other services increased from 7% in FY08 to 9% in FY09. Operations in Turkey continued to account for 91% of consolidated revenues.

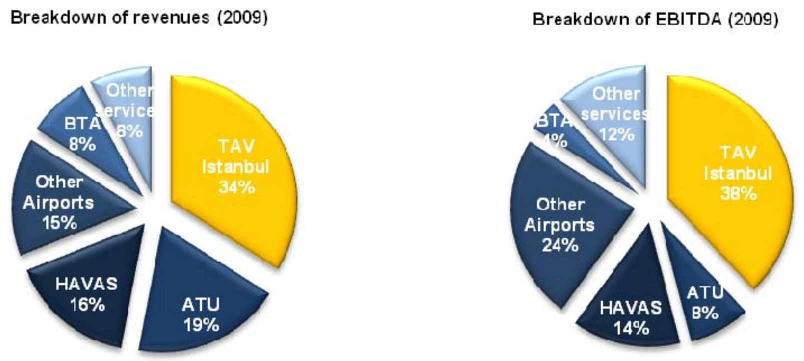


Figure 26: Breakdown of Revenues and EBITDA

Source: TAV Airports

In 2010, we have assumed that Havas will continue to be fully consolidated, however, minority interest figure will increase in the income statement. Furthermore, financial expenses will also increase as financial expenses related with the Enfidha investment were capitalized until late 2009. This year, the full year effects of Enfidha's financial expenses will be reflected on the income statement, which will pressure the bottom-line.

Passenger traffic peaks in the third quarter, while first quarter is usually the weakest..

There is seasonality in revenues as 1Q is operationally the weakest quarter while traffic picks up in 2Q, reaching its highest level in 3Q thanks to increasing tourist activity. As 82% of total revenues and 57% of operating expenses are FX-based, TAV operationally benefits from TL depreciation. In response to fluctuations in currency, the Company hedges around 87% of its consolidated debt with derivative products.

Valuation & Key Assumptions

VI.1.2 Valuation & Forecasts

We derived our fair value for TAV through our SOTP valuation which is based on DCF values of its subsidiaries, other than Havas, which we value on the recent transaction price. Our 12 month target market capitalisation is EUR1.27bn (TL7.8/share) for the company. The valuation is very sensitive to the number of passengers. A 1% increase/ decrease in our pax growth forecasts, with the assumption of same EBITDAR margins, would increase/decrease our target value by 18%.

TAV Istanbul accounts for the largest portion of our valuation. TAV Istanbul's 2010 E EV/ EBITDA is also around 9.0x, which is at a 12% discount to the peer group average.

Figure 27: Sum of the Parts (SOTP)

Business	Sector	TAV's Stake (%)	Valuation method	Target Value (EUR mn)	Target NAV (EUR mn)
TAV Istanbul	Airport terminal	100%	DCF	772	772
TAV Ankara	Airport terminal	100%	DCF	37	37
TAV Izmir	Airport terminal	100%	DCF	19	19
TAV Tunisie	Airport terminal	67%	DCF	229	153
TAV Georgia	Airport terminal	66%	DCF	28	19
TAV Macedonia	Airport terminal	100%	DCF	5	5
Airports total					**1,006**
ATU	Duty-free	50%	DCF	269	134
BTA	Catering	67%	DCF	86	58
SPV - HAVAS	Ground handling	65%	Transaction value	120	78
Services total					**270**
Solo net debt					**10**
Target value (EUR mn)					**1,266**
target share price (TL)					**7.8**

Source: Is Investment

International Peer Group Comparison

Although TAV is trading at discounts to the peer group expected EV/sales and EV/ EBITDA multiples for 2010 and 2011, but is at premiums to the average P/E ratios in 2010 and 2011, we believe TAV's higher P/E ratios can be justified by its strong growth potential, given the fact that the Company will double its EBITDAR by 2020.

Figure 28: International Peer Group Comparison

	EV/Sales			EV/EBITDA			P/E			
Company	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	
FLUGHAFEN WIEN	2.9	2.7	2.6	8.7	8.3	7.9	14.4	16.2	22.8	AUSTRIA
FRAPORT AG	2.7	2.6	2.4	9.2	8.2	7.2	22.3	19.9	19.3	GERMANY
ADP	3.3	3.1	3.0	9.9	9.4	8.8	23.0	20.9	20.4	FRANCE
Average - developed	3.0	2.8	2.7	9.3	8.6	8.0	19.9	19.0	20.8	
HAINAN MEILAN-H	8.4	7.7	6.9	13.5	12.2	10.3	23.9	22.1	19.5	CHINA
MALAYSIA AIRPORT	3.4	3.1	2.7	8.7	7.9	6.8	14.5	13.2	12.1	MALAYSIA
BEIJING CAP AI-H	6.9	6.2	5.7	13.5	11.4	9.9		25.7	18.7	CHINA
TAV	2.9	2.6	2.4	9.7	8.7	7.7	27.2	22.0	14.9	TURKEY
Average - emerging	**4.4**	**4.9**	**4.3**	**11.4**	**10.1**	**8.7**	**18.0**	**18.8**	**16.0**	
TAV's premium/ discount to the average	*-35%*	*-46%*	*-45%*	*-15%*	*-14%*	*-12%*	*51%*	*17%*	*-7%*	

Source: Bloomberg, Is Investment

Shareholder Structure

TAV's IPO was made in February 2007 at a market cap of US$1.74bn (EUR1.21bn at the current parity) where 18.4% of the shares were floated. In 2007, Goldman Sachs disposed of its stakes in the company, which it had acquired in the pre-IPO, in 2009 Meinl Airports also sold its stakes.

In the current shareholder structure other than the equally owned 26.1% by Akfen Holding and Tepe Insaat, CEO-owned Sera holds 4.4%, while free float is 39.4%, and the remaining is held by others such as investment funds. Yet, it is important to note that some investment funds (IDB Infrastructure Fund and Kuwait-based Global Investment House) also have shares in the free float.

Main assumptions of our model are:

- Risk-free assumptions: For Turkey, Georgia and Tunisia, we respectively incorporated risk-free rates of 5%, 6.75% and 4%. Turkey's RFR is based on Turkey's Euro -denominated 2017 Eurobond yield, while we assumed constant spread over the US$ denominated outstanding government bonds in Georgia and used the bond yields for equally rated countries for Tunisia.
- We use 1.2 as the TAV Airport's beta, given its high leverage.
- We assumed different debt to equity ratios for all subsidiaries, which are based on judgment from their net debt positions.
- We do not allocate any value yet to Tav Airports Batumi, and Gazipasa operations since we do not expect significant contributions from these projects in the near future. We have also not included potential new investments such as Male, and Medina Airports in our valuation.
- TAV Istanbul, services segment and TAV Tunisie account for 61%, 21% and 12% of our target NAV. We assume Havas will continue to be fully consolidated in 2010.

Figure 29: Passenger Forecasts

Passenger figures	2006	2007	2008	2009	2010	2011	2012	2014	2015	2018
Ataturk Airport	21.3	23.2	28.6	29.8	32.4	34.3	36.7	40.0	41.8	47.5
YoY Growth (%)				*4.4%*	*8.6%*	*6.0%*	*6.9%*	*3.7%*	*4.4%*	*4.3%*
International (inc. transit)	12.2	13.6	17.1	18.4	20.2	21.7	23.3	25.7	27.0	31.1
YoY Growth (%)				*7.8%*	*9.9%*	*7.3%*	*7.4%*	*4.3%*	*4.9%*	*4.9%*
International (exc. transit)	0.0	0.0	15.1	15.7	16.8	17.9	19.3	21.3	22.3	25.8
YoY Growth (%)				*4.4%*	*6.5%*	*6.8%*	*7.7%*	*4.3%*	*4.9%*	*4.9%*
Domestic	9.1	9.6	11.5	11.4	12.2	12.6	13.4	14.3	14.8	16.3
YoY Growth (%)				*-0.6%*	*6.5%*	*3.7%*	*6.1%*	*2.8%*	*3.3%*	*3.2%*
Esenboga Airport	4.5	5.0	5.7	6.1	6.5	6.9	7.4	8.3	8.8	10.4
YoY Growth (%)				*6.9%*	*6.1%*	*6.9%*	*8.0%*	*5.0%*	*6.0%*	*5.4%*
International	1.3	1.3	1.2	1.1	1.1	1.2	1.3	1.4	1.5	1.7
YoY Growth (%)				*-12.3%*	*4.3%*	*5.0%*	*6.0%*	*4.0%*	*5.0%*	*5.0%*
Domestic	3.3	3.6	4.4	5.0	5.3	5.7	6.2	6.9	7.4	8.7
YoY Growth (%)				*12.3%*	*6.5%*	*7.3%*	*8.4%*	*5.2%*	*6.3%*	*5.5%*
Izmir Airport - Intl	1.5	1.6	1.7	1.7	1.7	1.8	1.9	2.1		
YoY Growth (%)				*-1.8%*	*4.3%*	*5.0%*	*6.0%*	*4.0%*		
TAV TURKEY TOTAL	**27.3**	**29.8**	**35.9**	**37.6**	**40.6**	**43.0**	**46.1**	**50.5**	**50.6**	**57.9**
TURKEY in TAV's total	*85%*	*86%*	*88%*	*89%*	*88%*	*88%*	*88%*	*87%*	*87%*	*87%*
Tunisian Passengers	4.2	4.2	4.2	3.8	4.0	4.3	4.6	5.1	5.4	6.4
YoY Growth (%)				*-10.1%*	*6.8%*	*6.4%*	*6.1%*	*5.9%*	*5.8%*	*5.5%*
Monastir Airport	4.2	4.2	4.2	3.8	2.5	2.0	1.5	1.6	1.6	1.7
YoY Growth (%)				*-10.2%*	*-33.9%*	*-20.0%*	*-25.0%*	*2.0%*	*2.0%*	*2.0%*
Enfidha	0.0	0.0	0.0	0.0	1.5	2.3	3.1	3.6	3.8	4.7
YoY Growth (%)				*nm*	*nm*	*49.2%*	*33.1%*	*7.7%*	*7.5%*	*6.8%*
Tbilisi Airport	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9	1.1
YoY Growth (%)				*-1.7%*	*10.1%*	*4.5%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
International	**0.6**	**0.6**	**0.7**	**0.7**	**0.8**	**0.8**	**0.8**	**0.9**	**0.9**	**1.1**
YoY Growth (%)				*-1.5%*	*10.0%*	*4.5%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Domestic	**0.00**	**0.01**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.01**	**0.01**	**0.01**
YoY Growth (%)				*-31.9%*	*20.0%*	*10.0%*	*12.0%*	*10.5%*	*9.7%*	*7.5%*
Batumi Airport	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
YoY Growth (%)				*-14.4%*	*36.6%*	*11.6%*	*14.0%*	*10.4%*	*9.7%*	*7.9%*
International	**0.0**	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
YoY Growth (%)				*-28.8%*	*14.0%*	*13.0%*	*15.0%*	*11.3%*	*10.5%*	*8.3%*
Domestic	**0.00**	**0.00**	**0.02**	**0.02**	**0.03**	**0.03**	**0.04**	**0.04**	**0.04**	**0.06**
YoY Growth (%)				*45.6%*	*20.0%*	*9.0%*	*12.0%*	*8.6%*	*8.2%*	*7.0%*
Macedonia Total					0.7	0.9	1.0	1.1	1.2	1.3
YoY Growth (%)						*38.0%*	*10.0%*	*5.0%*	*5.0%*	*5.0%*
OVERSEAS TOTAL	**4.8**	**4.9**	**5.0**	**4.5**	**5.6**	**6.1**	**6.5**	**7.3**	**7.7**	**9.0**
OVERSEAS in TAV's total	*15%*	*14%*	*12%*	*11%*	*12%*	*12%*	*12%*	*13%*	*13%*	*13%*
TAV TOTAL	**32.0**	**34.6**	**40.9**	**42.1**	**46.1**	**49.1**	**52.6**	**57.7**	**58.3**	**66.8**
YoY Growth (%)				*2.9%*	*9.5%*	*6.6%*	*7.0%*	*4.1%*	*0.9%*	*4.6%*

Source: Is Investment

Revenue and EBITDAR forecasts until 2021

Below are our revenue and EBITDAR forecasts until 2021 when the concession of TAV Istanbul, the largest contribution to operations, will end. We forecast TAV to nearly double its revenues and EBITDAR by 2020, which are based on 5.2% CAGR in passenger figures between 2009-20, which we believe is a reasonable assumption and could easily be outpaced by stronger growth figures.

Figure 30: Revenue and EBITDAR forecasts until 2021

Revenues (EUR, mn)	2009	2010	2011	2012	2014	2015	2018	2019	2020
Airports	376	434	475	520	589	596	718	763	810
Istanbul	260	292	318	348	397	423	513	546	582
Ankara	33	36	38	41	46	49	58	61	64
Izmir	29	30	31	33	36	-	-	-	-
Tblisi	16	13	14	15	16	17	19	20	21
Batumi	1	2	2	2	2	3	3	4	4
Tunisia	38	49	56	64	74	87	105	111	118
Gazipasa	-	-	-	-	-	-	-	-	-
Macedonia	-	14	17	19	20	21	24	24	25
Services	396	425	464	508	580	609	738	787	839
ATU (50%)	145	164	185	208	245	262	328	355	383
BTA	59	69	74	79	87	85	99	103	109
HAVAS	126	131	140	151	173	183	221	235	249
Others	66	61	65	70	76	79	90	94	99
Total	772	860	939	1,028	1,170	1,206	1,456	1,550	1,649
Eliminations	- 133	- 148	- 162	- 177	- 202	- 208	- 251	- 267	- 285
Consolidated*	640	713	780	850	968	998	1,205	1,283	1,365

EBITDAR (EUR, mn)	2009	2010	2011	2012	2014	2015	2018	2019	2020
Airports	249	277	301	327	370	373	451	479	510
Istanbul	194	219	238	260	296	315	382	407	434
Ankara	13	14	15	17	19	20	24	26	27
Izmir	17	16	17	18	19				
Tblisi	4	3	3	4	4	4	5	5	6
Batumi	- 0	-	-	-	-	-	-	-	-
Tunisia	22	18	19	21	23	24	29	30	32
Gazipasa	-	-	-	-	-	-	-	-	-
Macedonia	- 1	6	8	8	9	9	11	11	12
Services	64	54	60	65	74	78	95	102	109
ATU (%50)	14	15	16	17	19	20	25	27	29
BTA	7	8	10	11	13	13	18	19	20
HAVAS	24	30	33	35	40	43	51	54	58
Others	20	1	1	1	2	2	2	2	2
Total	313	331	361	392	444	451	546	582	619
Eliminations	- 2	- 2	- 2	- 2	- 2	- 2	- 3	- 3	- 3
Consolidated	311	331	361	390	441	449	543	578	616

**includes guaranteed pax revenues*

Source: Is Investment

Assumptions of Istanbul Ataturk Airport - TAV Istanbul

Istanbul Ataturk Airport growth is outpacing its peers. With a 12% CAGR in pax figures between 2006-2009, Ataturk Airport has been one of the fastest growing airports in Europe. Looking at the last three year's figures, we see that the growth mainly stemmed from the 15% CAGR in international routes, while domestic passenger base grew by an 8% CAGR between 2006-09. We expect the international passenger growth to continue to be strong There are two main arguments behind our expectation:

1. Turkish Airlines' increased the weight of long-haul aircrafts in its new fleet expansion plan, while some international airline carriers are losing reputation and credibility. Istanbul is increasingly becoming a main hub for international traffic.
2. We expect a more aggressive competition from Sabiha Gokcen on domestic routes.

We assume declining domestic market share of TAV in Istanbul due to increasing competition

We expect International and domestic passenger traffic to grow by CAGRs of 8.2% (including transit) and 5.4% in 2009-2012, respectively, as a result of better economic outlook in the world and Turkey, growing fleet number of flag carrier Turkish Airlines, and as well as increasing importance of Istanbul as a hub. We expect 5.2% CAGR in total passenger number at Istanbul Ataturk Airport between 2009-2020, on the back of 4.1% domestic CAGR and 5.8% international CAGR in the term. The traffic at the airport remained relatively strong to global downturn when compared to its global counterparts. Compared to 4.2% passenger growth in TAV Istanbul in 2009, the airports included in ACI's statistics lost 3.0% of their passenger base.

Global pax decline was 3% in 2009 compared to over 4% growth in TAV

In our model, we have not assumed the entry of a 3rd airport, since we find the probability of it really small before 2020 however, there is still such a risk. We have assumed, however, increasing competition from Sabiha Gokcen Airport, and thus decreased TAV Istanbul's market share in domestic flights to 60% in 2020 from 70% in 2010.

A welcome addition to EBITDA: TAV will charge EUR5 per transit passenger from 2010 onward

TAV Istanbul charges EUR3 per domestic passenger and US$15 per international passenger. The fact that TAV Istanbul does not receive any airside revenues increases its dependence on passenger numbers. Starting from 2010, TAV began to charge EUR5 from transit passengers (half of which will be State Airports Authority's share), which is a welcome addition to both revenues and EBITDA since there are no additional costs related with transit passengers. Accordingly, we expect a slight increase in TAV Istanbul's EBITDAR margin, however, some of it will be wiped away due to lower duty-free spending per pax as a result of limitations introduced in October 2009.

BTA begins operations in Istanbul Ataturk domestic terminal in July 2010

Other than passenger revenues, a significant portion of TAV Istanbul's numbers are generated through ATU (duty free), BTA (catering) and others (area allocation, valet&car parking). Though it is a small part of our valuation, it is worth to note that BTA will start operating in Ataturk Airport's domestic terminal starting from July 2010.

TAV Istanbul pays an annual rental fee of US$140mn plus VAT. The concession period will end in January 2021, so we have not included 2021 in our assumptions. We find the value of TAV Istanbul to be EUR772mn.

Figure 31: Passenger Traffic Forecasts

Istanbul Ataturk Passenger Traffic	2009	2010	2011	2012	2013	2014	2015	2020
Total (mn)	**29.8**	**32.4**	**34.3**	**36.7**	**38.6**	**40.0**	**41.8**	**52.0**
YoY Growth (%)	4.4%	8.6%	6.0%	6.9%	5.2%	3.7%	4.4%	4.7%
International inc transit/transfer	18.4	20.2	21.7	23.3	24.6	25.7	27.0	34.3
YoY Growth (%)	7.8%	9.9%	7.3%	7.4%	5.8%	4.3%	4.9%	5.0%
International exc.transit/transfer	15.7	16.8	17.9	19.3	20.4	21.3	22.3	28.4
YoY Growth (%)	4.4%	6.5%	6.8%	7.7%	5.9%	4.3%	4.9%	5.0%
Domestic	11.4	12.2	12.6	13.4	14.0	14.3	14.8	18
YoY Growth (%)	-0.6%	6.5%	3.7%	6.1%	4.3%	2.8%	3.3%	4.1%
Transit/Transfer	2.7	3.5	3.8	4.0	4.2	4.4	4.6	5.9
YoY Growth (%)	33%	30%	10%	6%	5%	4%	5%	5%
Forecasts	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2020**
Departing Passengers	**13.6**	**16.2**	**17.2**	**18.3**	**19.3**	**20.0**	**20.9**	**26.0**
International (exc. Transit)	7.9	8.4	8.9	9.6	10.2	10.6	11.2	14.2
Domestic	5.7	6.1	6.3	6.7	7.0	7.2	7.4	8.8
Passenger Service Charge								
International (US$/pax)	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
International (EUR/pax)	10.8	10.6	10.8	10.9	11.1	11.2	11.3	11.5
Transit (EUR/pax)		5.0	5.0	5.0	5.0	5.0	5.0	5.0
Domestic (EUR/pax)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Passenger Service Revenues (EUR, mn)	**98.7**	**114.5**	**124.0**	**134.6**	**143.8**	**151.0**	**159.1**	**203.7**
International	81.8	88.5	96.5	105.5	113.4	119.6	126.4	164.0
Transit		7.8	8.6	9.1	9.5	9.9	10.4	13.3
Domestic	16.9	18.2	18.9	20.1	20.9	21.5	22.2	26.5
Concession Revenues	**160.0**	**177.3**	**194.1**	**213.8**	**231.3**	**246.1**	**264.2**	**378.3**
Duty-free Concession	**108.0**	**117.3**	**130.0**	**144.6**	**157.8**	**169.2**	**183.2**	**273.0**
Catering Concession	**17.8**	**19.4**	**21.1**	**23.2**	**25.0**	**26.6**	**28.5**	**40.1**
Other Revenues	34.1	40.6	43.1	46.1	48.5	50.3	52.5	65.3
TOTAL	**258.7**	**291.8**	**318.1**	**348.4**	**375.1**	**397.1**	**423.2**	**582.1**

Source: Is Investment

Figure 32: DCF Summary

DCF (EUR, mn)	2009	2010	2011	2012	2013	2014	2015	2020
Revenues	**259.8**	**291.8**	**318.1**	**348.4**	**375.1**	**397.1**	**423.2**	**582.1**
EBITDAR	**194**	**219**	**238**	**260**	**280**	**296**	**315**	**434**
EBITDAR Margin (%)	**74.5%**	**74.9%**	**74.8%**	**74.7%**	**74.6%**	**74.5%**	**74.5%**	**74.5%**
Concession Rent (US$, mn)	165	165	165	165	165	165	165	165
Concession Rent (EUR, mn)	126	114	120	115	113	113	113	112
EBITDA	68	104	118	146	167	183	202	321
Depreciation	-6	-7	-7	-8	-9	-9	-10	-13
EBIT	62	98	111	138	158	174	192	308
Tax	-12	-20	-22	-28	-32	-35	-38	-62
Capex	-17	-10	-10	-11	-11	-11	-15	-8
Working Capital	-6	-7	-8	-9	-9	-10	-11	-15
Change in WC	0	-1	-1	-1	-1	-1	-1	-1
FCF	38	74	85	107	124	137	148	251
WACC			9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
PV of FCFs		936						
net debt at FY09		241						
fair value		**695**						
12 month target value		**772**						

Source: Is Investment

Assumptions of Ankara Esenboga Airport - TAV Ankara

In 2009, the international passenger figure contracted 12% to 1.1mn due to an international operator's decision not to fly to Ankara, some of which was compensated for the 12% growth in domestic passengers to 5mn thanks to Anadolu Jet. Anadolu Jet is an airline operated by Turkish Airlines to compete in the domestic low cost market in Turkey. International passenger growth is likely to pick up this year, as a result of new international airlines', particularly Middle Eastern, decision to fly to Ankara, as well as Anadolu Jet's decision to make Esenboga its hub for international flights, flying to Europe, Iran and Syria.

International and domestic passenger fees are EUR15 and EUR3, respectively. There is a volume guarantee of 0.6mn for departing domestic and 0.75mn for departing international passenger which increases at an annual rate of 5% starting from 2007, bringing domestic figure, for example, to 0.66mn in 2009. Yet, passenger demand for Ankara is much higher than the guaranteed number. TAV's operations in Ankara are until May 2023, so we have not included 2023 in our assumptions.

We find the value of TAV Ankara to be EUR37mn.

Figure 33: Passenger Traffic Forecasts & DCF Summary

Ankara Esenboga Passenger Traffic	2009	2010	2011	2012	2013	2014	2015	2020	2021	2022
Total	**6.1**	**6.5**	**6.9**	**7.4**	**7.9**	**8.3**	**8.8**	**11.5**	**12.1**	**12.7**
YoY Growth (%)	6.9%	6.1%	6.9%	8.0%	6.5%	5.0%	6.0%	5.0%	5.0%	5.0%
International	1.1	1.1	1.2	1.3	1.3	1.4	1.5	1.9	2.0	2.0
YoY Growth (%)	-12.3%	4.3%	5.0%	6.0%	5.0%	4.0%	5.0%	5.0%	5.0%	5.0%
Domestic	5.0	5.3	5.7	6.2	6.6	6.9	7.4	9.6	10.1	10.6
YoY Growth (%)	12.3%	6.5%	7.3%	8.4%	6.7%	5.2%	6.3%	5.0%	5.0%	5.0%
Forecasts (mn)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2020**	**2021**	**2022**
Departing Passengers	**3.0**	**3.2**	**3.4**	**3.7**	**4.0**	**4.2**	**4.4**	**5.7**	**6.0**	**6.3**
International	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.9	1.0	1.0
Domestic	2.5	2.7	2.8	3.1	3.3	3.5	3.7	4.8	5.1	5.3
Guaranteed Departing Pax	**1.5**	**1.6**	**1.6**	**1.7**	**1.8**	**1.9**	**2.0**	**2.5**	**2.7**	**2.8**
International	0.8	0.9	0.9	1.0	1.0	1.1	1.1	1.4	1.5	1.6
Domestic	0.7	0.7	0.7	0.8	0.8	0.8	0.9	1.1	1.2	1.2
Passenger Service Charge										
International (EUR/pax)	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Domestic (EUR/pax)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Passenger Service Revenues (EUR, mn)	**14.4**	**15.1**	**15.9**	**16.7**	**17.5**	**18.4**	**19.3**	**24.6**	**25.8**	**27.1**
International	12.4	13.0	13.7	14.4	15.1	15.8	16.6	21.2	22.3	23.4
Domestic	2.0	2.1	2.2	2.3	2.4	2.5	2.7	3.4	3.6	3.7
Commissions Revenue	**7.7**	**7.5**	**8.1**	**8.8**	**9.5**	**10.1**	**10.9**	**15.8**	**16.6**	**17.4**
Duty-free Commissions	6.0	5.8	6.3	6.9	7.5	8.0	8.7	12.9	13.6	14.3
Catering Commissions	1.7	1.7	1.8	1.9	2.0	2.1	2.2	2.8	3.0	3.1
Other Revenues	**12.7**	**13.5**	**14.4**	**15.6**	**16.6**	**17.4**	**18.5**	**24.0**	**25.2**	**26.5**
Total Revenues	**34.8**	**36.1**	**38.4**	**41.1**	**43.6**	**45.9**	**48.6**	**64.4**	**67.6**	**71.0**
Financials (EUR, mn)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2020**	**2021**	**2022**
Revenues	**33.0**	**36.1**	**38.4**	**41.1**	**43.6**	**45.9**	**48.6**	**64.4**	**67.6**	**71.0**
EBITDAR	**13.1**	**14.3**	**15.4**	**16.7**	**17.8**	**18.9**	**20.1**	**27.5**	**29.0**	**30.7**
EBITDAR Margin (%)	**39.7%**	**39.7%**	**40.2%**	**40.7%**	**40.9%**	**41.2%**	**41.4%**	**42.7%**	**42.9%**	**43.2%**
EBITDA	**13.1**	**14.3**	**15.4**	**16.7**	**17.8**	**18.9**	**20.1**	**27.5**	**29.0**	**30.7**
Depreciation	-7.5	-7.5	-7.6	-7.7	-7.7	-7.8	-7.8	-8.2	-8.3	-6.7
EBIT	5.6	6.8	7.8	9.1	10.1	11.1	12.3	19.3	20.8	24.0
Tax	-1.1	-1.4	-1.6	-1.8	-2.0	-2.2	-2.5	-3.9	-4.2	-4.8
Capex	-1.8	-1.3	-1.2	-1.2	-1.3	-1.2	-1.7	-0.9	-1.3	0.0
Working Capital	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0	-1.3	-1.4	-1.4
Change in WC	0.0	-0.1	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
FCF	10.2	11.6	12.6	13.6	14.5	15.4	15.9	22.7	23.5	25.8
WACC	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Discounted FCF	10.2	11.0	11.1	11.3	11.4	11.4	11.1	11.7	11.4	11.8
PV of FCFs	**151.9**									
net debt at FY09	**118.5**									
fair value	**33.4**									
12 month target value	**37.1**									

Source: Is Investment

Assumptions of Izmir Adnan Menderes - TAV Izmir

TAV only operates the international terminal at Izmir Airport. We believe that the demand from international passengers will grow thanks to improving economic outlook in the world, as well as continuing interest in Turkey's touristic regions. Accordingly, we estimate international passenger CAGR to be 4.9% until the end of 2014. TAV Izmir charges EUR15/passenger. Concession period for Izmir ends January 2015, therefore we have not included 2015 in our assumptions.

We find the value of TAV Izmir to be EUR19.5mn.

Figure 34: Passenger Traffic Forecasts & DCF Summary

Izmir Adnan Menderes Passenger Traffic	2009	2010	2011	2012	2013	2014
International	**1.7**	**1.7**	**1.8**	**1.9**	**2.0**	**2.1**
YoY Growth (%)	-1.8%	4.3%	5.0%	6.0%	5.0%	4.0%
Forecasts (mn)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Departing Passengers						
International	0.8	0.9	0.9	1.0	1.0	1.1
Guaranteed Departure Pax	**1.1**	**1.1**	**1.2**	**1.2**	**1.2**	**1.3**
Passenger Service Charge						
International (EUR/pax)	15.0	15.0	15.0	15.0	15.0	15.0
Passenger Service Revenues (EUR)	**16.4**	**16.9**	**17.4**	**17.9**	**18.4**	**19.0**
International	**16.4**	**16.9**	**17.4**	**17.9**	**18.4**	**19.0**
Concession Revenues	**8.0**	**7.8**	**8.5**	**9.3**	**10.0**	**10.7**
Duty-free Concession	**7.1**	**6.9**	**7.5**	**8.2**	**8.9**	**9.5**
Catering Concession	**0.9**	**0.9**	**1.0**	**1.1**	**1.1**	**1.2**
Others	**4.8**	**5.0**	**5.3**	**5.6**	**5.8**	**6.1**
TOTAL	**29.2**	**29.7**	**31.1**	**32.7**	**34.3**	**35.7**

Financials (EUR, mn)	2009	2010	2011	2012	2013	2014
Revenues	**28.7**	**29.7**	**31.1**	**32.7**	**34.3**	**35.7**
EBITDAR	**16.5**	**16.2**	**16.6**	**17.5**	**18.3**	**19.1**
EBITDAR Margin (%)	**57.5%**	**54.6%**	**53.5%**	**53.5%**	**53.5%**	**53.5%**
EBITDA	16.5	16.2	16.6	17.5	18.3	19.1
Depreciation	-10.4	-10.4	-10.5	-10.5	-10.5	-10.4
EBIT	6.1	5.8	6.2	7.0	7.8	8.7
Tax	-1.2	-1.2	-1.2	-1.4	-1.6	-1.7
Capex	-1.1	-1.1	-1.0	-1.0	-1.0	-0.9
Working Capital	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7
Change in WC	0.0	0.0	0.0	0.0	0.0	0.0
FCF	14.2	14.0	14.4	15.1	15.8	16.4
WACC	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Discounted FCF	14.2	13.2	12.7	12.6	12.4	12.1
PV of FCFs	63.0					
net debt at FY09	45.5					
fair value	**17.5**					
12 month target value	**19.5**					

Source: Is Investment

Assumptions of Tunisia Airports: Monastır & Enfidha

TAV Tunisia

Since TAV's management believes that Tunisia will become one of Africa's major hubs in the near future, TAV has been operating in Monastir Airport since Jan 2008, and in the new Endifha Airport, located 60km away from Monastir, since Dec 2009. In our passenger growth forecasts for Tunisia, we have used Airport Council International's (ACI) pax growth rate assumptions for Africa. Accordingly, we assume passenger traffic in Tunisia to grow by a CAGR of 6.4% in 2009-12, reaching 4.6mn. TAV will shift some of the existing traffic from Monastir Airport into Enfidha, yet still is required to keep a minimum of 1.5mn in Monastir. The capacity of the Enfidha Airport is 7mn and will eventually increase to 22mn. We included additional capital expenditures of EUR20mn p.a. for Enfidha in 2015-2019, and 2020-2037, assuming that the airport will reach full capacity and will need to increase terminal capacity. Monastir Airport has a capacity of 3.5mn pax, however, can handle up to 4.5mn pax. In fact, it has already handled around 4.2mn pax.

The fee per departing passenger is EUR9 both for domestic and international flights. It was Euro8.25 in 2008 for Monastir. In contrast to Turkish airports (other than Gazipasa), TAV will have airside revenues in Tunisia, which include landing and parking services for the aircrafts. We assumed EUR250 per aircraft based on our judgment which applies some discount to landing and parking tariffs in Europe. TAV Tunisie will pay a concession fee of 11-26% of its revenues per year.

ATU Monastir and BTA Monastir will begin in 2015 and 2018, respectively. TAV Tunisie will operate both airports until May 2047. Total capital expenditures were EUR500mn in 2007, 2008 and 2009.

We find the value of TAV Tunisie to be EUR227mn. TAV sold its 15% stake in TAV Tunisie for EUR28mn to the IFC in Jun 09, implying a value of EUR187mn. In March 2010, TAV announced that it sold 18% of TAV Tunisie for EUR39.7mn to the Pan African Infrastructure Development Fund, leading to an implied value of EUR221mn.

Figure 35: Passenger Traffic Forecasts & DCF Summary

Tunisia Operations	2009	2010	2011	2012	2018	2022	2026	2047
Passenger Figures (mn)	**3.8**	**4.0**	**4.3**	**4.6**	**6.4**	**7.8**	**9.6**	**23.3**
Monastir Airport	3.8	2.5	2.0	1.5	1.7	1.8	2.0	1.1
Enfidha Airport	0.01	1.5	2.3	3.1	4.7	6.0	7.6	22.2
Departing Pax	**1.9**	**2.0**	**2.2**	**2.3**	**3.2**	**3.9**	**4.8**	**11.6**
Passenger service revenues (EUR/pax)	€ 9	€ 9	€ 9	€ 9	€ 9	€ 9	€ 9	€ 9
No. of aircrafts serviced	30,393	32,350	34,386	36,447	50,850	62,577	76,425	185,532
Fee (EUR/aircraft)	250	250	250	250	250	250	250	250
Revenues (EUR.mn)	**38.2**	**49.1**	**56.1**	**63.6**	**105.4**	**130.8**	**160.5**	**391.5**
Passenger revenues	17	18	19	21	29	35	43	105
Landing revenues	8	8	9	9	13	16	19	46
Non-aeronautical revenues	14	23	28	34	64	80	98	240
Duty-free Concession		6	9	13	30	38	48	117
Catering Concession		2	3	5	11	13	16	40
Other Income	14	14	15	16	23	28	34	83
EBITDAR (EUR, mn)	**22.1**	**29.5**	**34.8**	**40.7**	**74.8**	**98.1**	**122.0**	**307.7**
EBITDAR margin (%)	58%	60%	62%	64%	71%	75%	76%	79%
Concession Rent (EUR, mn)	14.8	5.8	6.8	8.0	15.6	21.4	28.8	101.8
Rate (%)	11%	12%	12%	13%	15%	16%	18%	26%
EBITDA (EUR, mn)	7.3	23.7	28.0	32.7	59.2	76.6	93.2	205.9
Depreciation	-2.5	-14.5	-14.6	-14.8	-15.7	-13.3	-10.4	-25.4
EBIT (EUR, mn)	4.8	9.2	13.4	18.0	43.4	63.3	82.8	180.5
Tax	-1.4	-2.8	-4.0	-5.4	-13.0	-19.0	-24.8	-54.1
Capex	-250.0	-12.9	-13.4	-13.8	-26.3	-7.8	-9.6	-23.5
WC Requirement	-1.0	-1.2	-1.4	-1.6	-2.1	-2.6	-3.2	-7.8
Change in WC	0.1	-0.3	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2
FCF	-244.1	7.7	10.4	13.4	19.7	49.7	58.6	128.1
WACC		**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**
Discounted FCF	**-24**	**7.2**	**9.2**	**11.0**	**11.1**	**21.7**	**19.9**	**11.4**
PV of FCFs	**543**							
net debt at FY09	**335**							
fair value	**208**							
12 month target value	**229**							

Source: Is Investment

Assumptions of Georgia Airports: Tbilisi & Batumi

TAV Georgia

With a capacity of 2.8mn passengers per year, Tbilisi Airport started operations in February 2007. Being the capital city of Georgia, Tbilisi Airport captures 89% of the traffic in the country. TAV charges domestic and international passenger fees of US$6 and US$22, respectively in Tbilisi. TAV charges a certain fee for aircraft landing and parking in Tbilisi, which we assume would be higher as compared to Tunisia, since cargo traffic would be more in Georgia, and cargo aircrafts are charged higher fees due to weight concerns. We have not made any assumptions for Batumi, since passenger figures are very low at 10% of Tbilisi, and 30% of Batumi passengers are domestic, which are charged nearly one-fourth of international passengers. Batumi International Airport began operations in late May 2007. Batumi is the second largest city in Georgia. Since December 2007, TAV also operates a small airport in Hopa, Artvin, Turkey, which is 30km away from Batumi and passengers are allowed to be transferred with Havas' operated buses.

We find the value of TAV Georgia to be EUR28mn.

Figure 36: Passenger Traffic Forecasts & DCF Summary

Georgia Operations	2009	2010	2011	2012	2018	2022	2027
Tblisi Passenger Figures							
Tblisi Pax	702,714	773,440	808,461	841,145	1,066,479	1,248,298	294,373
Domestic	3,278	3,934	4,327	4,846	8,293	10,371	2,184
International	699,551	769,506	804,134	836,299	1,058,185	1,237,927	292,189
Departing Pax							
Tblisi Pax	351,357	386,720	404,230	420,573	533,239	624,149	147,186
Domestic	1,639	1,967	2,163	2,423	4,147	5,185	1,092
International	349,776	384,753	402,067	418,150	529,093	618,964	146,094
Passenger Fees (US$/pax)							
Domestic	USD 6	USD 6	USD 6	USD 6	USD 6	USD 6	USD 6
International	USD 22	USD 22	USD 22	USD 22	USD 22	USD 22	USD 22
Passenger Revenues							
Passenger Revenues (EUR, mn)	5.5	6.0	6.4	6.7	9.0	10.5	2.5
Domestic	0.01	0.01	0.01	0.01	0.02	0.02	0.01
International	5.54	5.96	6.36	6.71	8.95	10.47	2.47

EUR mn	2009	2010	2011	2012	2018	2022	2027
Revenues	**16.0**	**13.4**	**14.1**	**14.8**	**19.3**	**22.6**	**5.4**
Airside Revenues	4.1	4.4	4.7	5.0	6.7	7.8	1.8
Passenger Revenues	5.5	6.0	6.4	6.7	9.0	10.5	2.5
Commissions & others	6.3	7.0	7.3	7.6	9.6	11.2	2.6
EBITDA	**4.4**	**4.8**	**5.1**	**5.5**	**7.7**	**9.5**	**2.4**
EBITDA margin (%)	28%	36%	37%	37%	40%	42%	44%
Depreciation	-0.8	-2.8	-2.8	-3.1	-3.2	-2.6	-0.5
EBIT (EUR, mn)	3.6	2.0	2.3	2.4	4.5	6.9	1.8
Tax	-0.5	-0.3	-0.3	-0.4	-0.7	-1.0	-0.3
Capex	-0.8	-0.7	-0.7	-0.7	-1.0	-1.1	-0.3
WC Requirement	-0.4	-0.3	-0.4	-0.4	-0.5	-0.6	-0.1
Change in WC	0.0	0.1	0.0	0.0	0.0	0.0	0.5
FCF	3.0	3.9	4.1	4.4	6.0	7.3	2.4
WACC	7%	7%	7%	7%	7%	7%	7%
Discounted FCF	2.8	3.6	3.5	3.5	3.2	2.9	0.7
PV of FCFs	54.6						
net debt at FY09	29.8						
fair value	24.8						
12 month target value	**28.1**						

Source: Is Investment

Assumptions of Macedonian Airports

TAV Airports had won the bid to operate the Alexander the Great Airport in Skopje, the capital of Macedonia, and St Paul the Apostle International Airport in Ohrid for 20 years in 2008, along with a greenfield investment for a new cargo airport in Shtip, which was postponed for 10 years due to technical reasons. TAV believes that Macedonia could serve to further open TAV Airports operations to into Europe. In 2009, 0.6mn pax used the Skopje Airport, while there were 36,000 pax in Ohrid. TAV began operations in these 2 Macedonia airports after March 2010. Passenger fees are EUR17.5/pax in Skopje and EUR16.2/pax in Ohrid.

We find the value of TAV Macedonia to be EUR5mn.

Figure 37: Passenger Traffic Forecasts & DCF Summary

Macedonia Operations	2010	2011	2012	2013	2014	2015	2020	2025	2030
Skopje Alexander the Great Airport									
Skopje Pax (mn)	0.8	0.9	0.9	1.0	1.0	1.1	1.4	1.8	2.3
International	0.8	0.9	0.9	1.0	1.0	1.1	1.4	1.8	2.3
Departing Pax									
Skopje Pax (mn)	0.4	0.4	0.5	0.5	0.5	0.5	0.7	0.9	1.1
International	0.4	0.4	0.5	0.5	0.5	0.5	0.7	0.9	1.1
Passenger Fees (EUR/pax)									
Domestic	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
International	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
ATM figures	**15,000**	**16,587**	**17,569**	**17,789**	**18,034**	**18,305**	**20,025**	**22,363**	**25,370**
Total Revenues (EUR mn)	**13**	**16**	**18**	**18**	**19**	**20**	**24**	**30**	**37**
Passenger Revenues	5.5	7.5	8.3	8.7	9.2	9.6	12.3	15.7	20.0
Airside revenues	6.8	7.5	7.9	8.0	8.1	8.2	9.0	10.1	11.4
Duty free revenues	1.0	1.4	1.6	1.7	1.8	1.9	2.7	3.8	5.4

Ohrid St. Paul the Apostle Airport	2010	2011	2012	2013	2014	2015	2020	2025	2030
Ohrid Pax (mn)	0.05	0.05	0.06	0.06	0.06	0.07	0.08	0.11	0.14
International	0.05	0.05	0.06	0.06	0.06	0.07	0.08	0.11	0.14
Departing Pax									
Ohrid Pax (mn)	0.02	0.03	0.03	0.03	0.03	0.03	0.04	0.05	0.07
International	0.02	0.03	0.03	0.03	0.03	0.03	0.04	0.05	0.07
Passenger Fees (EUR/pax)									
International	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2
ATM figures	**1,125**	**1,232**	**1,294**	**1,299**	**1,307**	**1,318**	**1,402**	**1,533**	**1,712**
Total Revenues (EUR mn)	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**2**	**2**
Passenger Revenues	0.3	0.4	0.5	0.5	0.5	0.5	0.7	0.9	1.1
International	0.3	0.4	0.5	0.5	0.5	0.5	0.7	0.9	1.1
Airside revenues	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.8
Duty free revenues	0.06	0.08	0.09	0.10	0.11	0.12	0.16	0.23	0.32

EUR mn	2010	2011	2012	2013	2014	2015	2020	2025	2030
Revenues	14.0	17.5	18.9	19.6	20.3	21.0	25.5	31.3	39.0
EBITDA	6.6	8.2	8.9	9.2	9.5	9.9	12.2	15.4	19.7
Depreciation	-2.8	-2.8	-3.1	-2.9	-2.9	-3.1	-3.0	-2.6	-0.5
EBIT (EUR, mn)	3.8	5.4	5.8	6.3	6.7	6.8	9.3	12.9	19.2
Tax	-0.6	-0.8	-0.9	-0.9	-1.0	-1.0	-1.4	-1.9	-2.9
Capex	-45.0	-55.0	-0.9	-1.0	-1.0	-1.1	-1.3	-1.6	-1.9
WC Requirement	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6	-0.8	-1.0
Change in WC	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-39.3	-47.7	7.0	7.3	7.5	7.8	9.5	11.9	14.8
WACC	7%	7%	7%	7%	7%	7%	7%	7%	7%
Discounted FCF	-36.7	-41.4	5.7	5.5	5.3	5.1	4.4	3.9	3.4
PV of FCFs	4.7								
net debt at FY09	0.0								
fair value	**4.7**								
12 month target value	**5.3**								

Source: Is Investment

Assumptions of ATU

ATU Duty Free is the sole duty free operator at Istanbul Ataturk, Ankara, Izmir airports as well as the airports in Georgia and Macedonia. ATU is a company established by between TAV (having stake of 49.98%) and the German Unifree. According to the management, average duty-free spending per pax was 6% lower YoY at EUR14.9 as a result of the limitations introduced in October 2009 on the purchase of alcoholic beverages, chocolate, cigarettes and cosmetics. Accordingly, the amounts allowed to be purchased were halved. Given EUR16 per pax duty free spend in Istanbul in 2009, we estimate 4Q09 duty free spending per pax to be EUR12-13/pax. Thus, although there will be some recovery in spending from the fourth quarter levels in 2010 thanks to an improving macro environment, overall duty free spending per pax should be lower than that in 2009. ATU Monastir will start operations in 2015.

ATU pays concession fees as a share of its duty-free revenues to the terminal companies. ATU accounted for 19% of total consolidated revenues in 2009.

We find the value of ATU to be EUR269mn.

Figure 38: Passenger Traffic Forecasts & DCF Summary

ATU	2009	2010	2011	2012	2014	2015	2020	2021	2023	2028	2030	2047
Duty-free Spending per pax (EUR)												
Istanbul	15.7	13.5	13.9	14.4	15.3	15.8	18.5					
Ankara	13.7	12.7	13.1	13.6	14.4	14.9	17.4	17.4				
Izmir	10.7	9.9	10.2	10.6	11.2							
Georgia	1.9	1.6	1.6	1.7	1.7	1.8	1.9	2.0	2.1			
Macedonia		1.6	1.6	1.7	1.7	1.8	1.9	2.0	2.1	2.3	2.4	
Enfidha		9.9	10.2	10.7	11.7	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Monastir						11.1	11.5	11.7	12.2	13.5	14.0	19.6
International Pax (mn)	**2009**	**2010**	**2011**	**2012**	**2014**	**2015**	**2020**	**2021**	**2023**	**2028**	**2030**	**2047**
Istanbul	18.4	20.2	21.7	23.3	25.7	27.0	34.3	***ENDS***				
Ankara	1.1	1.1	1.2	1.3	1.4	1.5	1.9	2.0	***ENDS***			
Izmir	1.7	1.7	1.8	1.9	2.1	***ENDS***						
Georgia	0.7	0.8	0.9	0.9	1.0	1.0	1.3	1.3	1.5	***ENDS***		
Macedonia		0.7	0.9	1.0	1.1	1.2	1.5	1.6	1.7	2.2	***ENDS***	
Enfidha	0.01	1.5	2.3	3.1	3.6	3.8	5.3	5.7	6.4	8.5	9.4	22.2
Monastir	3.8	2.5	2.0	1.5	1.6	1.6	1.8	1.8	1.9	2.1	2.1	1.1
Duty-free Revenues (EUR, mn)	**2009**	**2010**	**2011**	**2012**	**2014**	**2015**	**2020**	**2021**	**2023**	**2028**	**2030**	**2047**
Istanbul	251	273	302	336	393	426	635					
Ankara	15	14	16	17	20	22	32	34				
Izmir	18	17	19	21	24							
Georgia	1	1	1	1	2	2	2	3	3			
Macedonia		1	1	2	2	2	3	3	4	5		
Enfidha		15	24	33	42	47	65	70	78	104	116	272
Monastir						18	20	21	23	28	30	21
Total Duty-free Revenues	284	322	363	410	482	516	758	130	108	137	152	294
Other revenues	6	6	7	7	7	7	8	8	8	9	9	13
Total ATU revenues (EUR, mn)	**290**	**329**	**370**	**416**	**489**	**523**	**766**	**138**	**116**	**146**	**161**	**307**
EBITDA	27.6	29.7	31.7	34.0	38.3	40.2	57.6	10.4	8.7	11.0	12.1	23.1
Depreciation	-1.4	-3.7	-4.2	-4.7	-5.6	-6.0	-8.7	-1.6	-1.6	-1.6	-1.6	-1.6
EBIT	26.2	25.9	27.5	29.2	32.7	34.2	48.9	8.8	7.1	9.4	10.5	21.5
Tax	-7.9	-7.8	-8.3	-8.8	-6.5	-6.8	-9.8	-1.8	-1.4	-1.9	-2.1	-4.3
Capex	-2.9	-3.3	-3.7	-4.2	-4.9	-5.2	-7.7	-1.4	-1.2	-1.5	-1.6	-3.1
Change in WC	0.1	-0.4	-0.4	-0.5	-0.3	-0.3	-0.6	6.3	0.3	-0.1	-0.1	0.0
FCF	17.0	18.2	19.4	20.6	26.5	27.7	39.6	13.5	6.4	7.6	8.3	15.7
WACC		9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	0%
Discounted FCF		17	16	16	17	17	15	5	2	1	1	16
PV of FCFs		**260**										
net debt at FY09		**17**										
fair value		**242**										
12 month target value		**269**										

Source: Is Investment

Assumptions of BTA

BTA is the food and beverage operator at Istanbul Ataturk Airport (international terminal only), Ankara, Izmir airports, as well as the airports in Georgia and Macedonia. However, BTA will start operating at Istanbul Ataturk domestic terminal as of July 2010, at Monastir Airport in 2018 and at Enfidha in 2010. Spending per pax was EUR2 in 2009; we have assigned different spending per pax in each terminal. BTA also generates revenues through fast food supplier Cakes&Bakes as well as the 85-room Airport Hotel at Istanbul Airport International Terminal. BTA pays around 40% of its revenues to TAV Airport Holdings in concession fees. TAV Holdings holds a 66.7% stake in BTA, and fully consolidates the company.

Figure 39: Passenger Traffic Forecasts & DCF Summary

BTA	2009	2010	2011	2012	2013	2014	2015	2020	2021	2023	2027	2047
Catering Spend per pax (EUR)												
Istanbul	2.2	2.3	2.4	2.6	2.7	2.8	2.9	3.6				
Ankara	1.1	1.2	1.3	1.3	1.4	1.5	1.5	1.9	1.9			
Izmir	1.4	1.5	1.6	1.6	1.7	1.8						
Georgia	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.7	1.7	1.7	1.7	1.7
Enfidha	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.7	1.7	1.7	1.7	1.7
Monastir								1.7	1.7	1.7	1.7	1.7
International Pax Traffic	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2020**	**2021**	**2023**	**2027**	**2047**
Istanbul	18.4	20.2	21.7	23.3	24.6	25.7	27.0	34.3				
domestic	0.0	6.1	12.6	13.4	14.0	14.3	14.8	17.7				
Ankara	5.0	5.3	5.7	6.2	6.6	6.9	7.4	9.6	10.1			
Izmir	1.7	1.7	1.8	1.9	2.0	2.1						
Georgia	0.7	0.8	0.9	0.9	0.9	1.0	1.0	1.3	1.3	1.5	0.3	
Enfidha	0.0	1.5	2.3	3.1	3.3	3.6	3.8	5.3	5.7	6.4	8.0	22.2
Monastir	3.8	2.5	2.0	1.5	1.5	1.6	1.6	1.8	1.8	1.9	2.0	1.1
Istanbul	45.7	60.7	84.0	94.3	103.2	112.4	123.2	186.3				
Ankara	5.7	6.4	7.3	8.3	9.2	10.2	11.3	18.0	18.9			
Izmir	2.3	2.6	2.8	3.2	3.5	3.8						
Georgia	1.0	1.1	1.2	1.3	1.4	1.5	1.6	2.2	2.3	2.5	0.6	
Enfidha	0.0	2.2	3.4	4.6	5.0	5.5	6.0	9.1	9.7	10.9	13.7	37.9
Monastir								3.0	3.1	3.2	3.4	1.8
BTA catering revenues	54.8	73.9	99.9	113.0	123.8	135.0	143.9	221.2	36.7	19.6	21.4	39.7
Hotel and Bakes&Cakes	4.3	4.5	4.7	5.0	5.3	5.5	5.8	7.3	7.3	7.3	7.3	7.3
Total BTA revenues	59.1	78.4	104.7	118.0	129.1	140.5	149.7	228.6	44.0	27.0	28.8	47.0

BTA (EUR mn)	2009	2010	2011	2012	2013	2014	2015	2020	2021	2023	2027	2047
EBITDA	6.5	7.8	10.3	11.3	12.1	12.9	13.5	20.1	4.0	2.4	2.6	4.2
Depreciation	-3.0	-1.6	-1.7	-1.8	-1.9	-2.0	-1.9	-2.5	-0.3	-1.5	-0.3	-1.0
EBIT	3.5	6.3	8.6	9.5	10.2	10.9	11.5	17.6	3.7	0.9	2.3	3.2
Tax	-0.7	-1.3	-1.7	-1.9	-2.0	-2.2	-2.3	-3.5	-0.7	-0.2	-0.5	-0.6
Capex	-3.0	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-0.5	-0.5	-0.3	-1.0
Change in WC	0.0	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	1.8	0.2	0.0	0.0
FCF	0.0	4.9	6.8	7.8	8.5	9.1	9.6	15.0	4.6	1.9	1.8	2.6
WACC		9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	0%
Discounted FCF		4.5	5.7	6.0	6.0	5.9	5.7	5.8	1.6	0.6	0.4	2.6
PV of FCFs		**79.9**										
net debt at FY09		**2.2**										
fair value		**77.7**										
12 month target value		**86.2**										

Source: Is Investment

Figure 40: Summary of Key Financials for TAV Airports Holding

Income Statement (TL mn)	2008A	2009A	2010E	2011E	2012E	2013E	2014E
Revenues	1,134	1,316	1,566	1,669	1,934	2,194	2,433
EBITDA	206	232	286	351	471	561	630
Depreciation & Amortisation	71	107	79	87	97	107	115
EBIT	135	126	207	265	374	454	515
Other income (expense), net	45	87	0	0	0	0	0
Financial expenses, net	(160)	(118)	(136)	(124)	(120)	(114)	(106)
Minority Interests	1	2	22	58	97	127	153
Income before tax	2	95	107	178	295	386	467
Taxation on Income	7	(4)	21	36	59	77	93
Net income	8	97	64	84	139	182	221
Cash Flow Statement (TL mn)							
Net Income	8	97	64	84	139	182	221
Depreciation & Amortisation	71	107	79	87	97	107	115
Indemnity Provisions	0	0	0	0	0	0	0
Change in Working Capital	(24)	(42)	(29)	(12)	(25)	(22)	(21)
Cash Flow from Operations	55	161	114	159	211	267	315
Capital Expenditure	895	1,122	56	310	170	169	167
Free Cash Flow	(840)	(962)	58	(151)	41	98	148
Rights Issue	0	121	0	0	0	0	0
Dividends Paid	0	0	0	0	0	0	0
Other Cash Inflow (Outflow)	(198)	488	(90)	318	104	140	169
Change in net cash	(1,038)	(353)	(32)	167	145	239	317
Net Cash	(1,671)	(2,023)	(2,056)	(1,889)	(1,744)	(1,505)	(1,189)
Balance Sheet (TL mn)							
Tangible Fixed Assets	167	254	527	750	822	884	936
Other Long Term Assets	651	369	679	719	765	802	835
Intangibles	1,049	1,978	1,682	1,474	1,482	1,465	1,436
Goodwill	0	0	0	0	0	0	0
Long-term financial assets	0	0	0	0	0	0	0
Inventories	21	25	25	26	30	34	37
Trade receivables	129	153	141	154	179	202	223
Cash & equivalents	681	761	248	315	326	368	487
Other current assets	793	616	554	542	560	566	560
Total assets	3,491	4,155	3,856	3,981	4,164	4,321	4,516
Long-term debt	1,877	2,354	1,869	1,744	1,581	1,361	1,143
Other long-term liabilities	0	0	0	0	2	5	8
Short-term debt	475	430	434	459	489	512	534
Trade payables	88	74	33	35	39	43	47
Other short-term liabilities	292	282	255	289	331	372	411
Total liabilities	2,830	3,262	2,783	2,735	2,669	2,539	2,405
Minority Interest	32	88	201	236	275	314	354
Total equity	629	805	872	1,010	1,220	1,468	1,757
Paid-in capital	242	363	363	363	363	363	363
Total liabilities & equity	3,491	4,155	3,856	3,981	4,164	4,321	4,516
Ratios							
ROE (%)	1.6	13.5	7.6	8.9	12.5	13.6	13.7
ROIC (%)	12.7	5.6	7.1	9.0	12.3	14.5	16.1
Invested Capital	1,277	2,336	2,342	2,369	2,474	2,542	2,586
Net debt/EBITDA (x)	8.1	8.7	7.2	5.4	3.7	2.7	1.9
Net debt/Equity (%)	265.4	251.5	235.7	187.0	142.9	102.5	67.7
Capex/Sales (%)	78.9	85.3	3.6	18.6	8.8	7.7	6.9
Capex/Depreciation (x)	12.6	10.5	0.7	3.6	1.7	1.6	1.4
EBITDA Margin	18.2	17.7	18.3	21.0	24.3	25.6	25.9
EBIT Margin	11.9	9.6	13.2	15.9	19.3	20.7	21.2
Net Margin	0.7	7.3	4.1	5.0	7.2	8.3	9.1

Source: Is Investment

The above statements exclude guaranteed passenger revenues, and thus are significantly different from those figures we use to value the Company.

VI.2. Mersin International Port (MIP)

VI.2.1 Business Overview

Mersin Port is a multipurpose port located on the Southeastern Coast of Turkey, handling containers, general cargo and bulk cargo. The port's proximity to Middle East and its fast developing hinterland provide a strategic importance and suggest a huge room for growth for trade, exports and imports.

A multi-purpose port located on the Southeastern Coast of Turkey

MIP, the 50%/50% partnership formed by Akfen Holding and Singapore based PSA has won the privatization tender to operate Mersin Port in 2005 with their US$755 mn bid. The transfer of Mersin Port from Turkish State Railways (TCDD) to MIP has been completed on May 11, 2007. Accordingly, MIP has obtained a 36-year concession to operate the port, which has started at the date of the transfer and will be completed in 2043.

The concession agreement includes mandatory investments to increase container and cargo capacity to 1.2 mn TEU and 7.5 mn tons respectively within 5 years of the agreement. The Company already took necessary steps to meet these targets. Note that the port's capacity can be extended up to 4.8 mn TEU.

Despite the slowdown in world trade, MIP handled 868K TEUs in 2008, representing an 8% YoY growth. Mersin Port ranked as the second largest container port in Turkey with 19% share after Marport (the leading port with 25.7% share) based on 2009 figures. The port handled 851K TEUs in 2009, only down by 2% YoY despite the economic crisis, which resulted in a 14% contraction in Turkey's total TEU number. According to Drewry's container forecast report published on 1 April 2010, year on year contraction in global container volumes is 9.9% in 2009

Figure 41: MIP– Throughput Growth (TEUs)

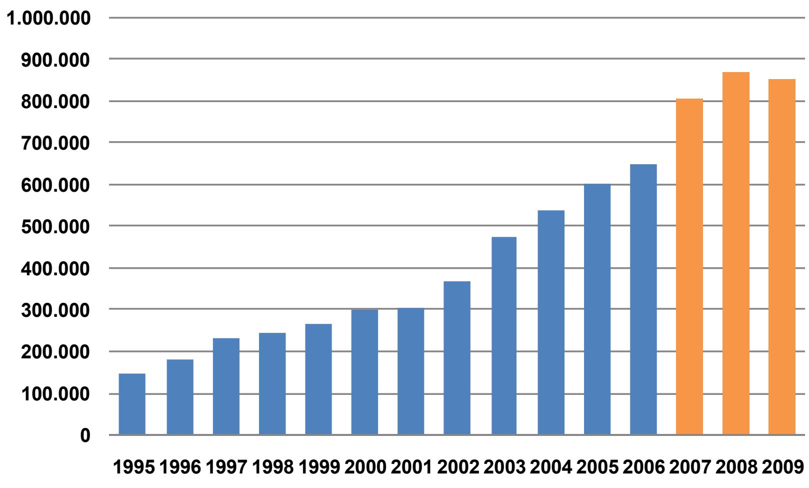
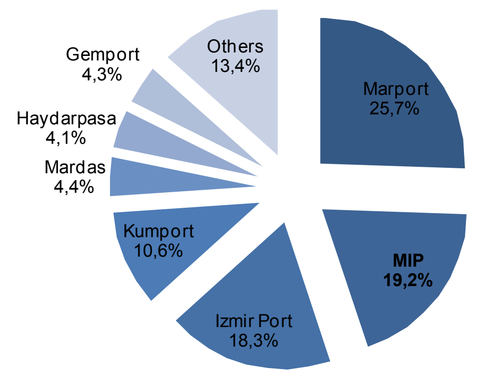


Figure 42: MIP—Market Share in Turkey's Container Handling Volume 2009



Source: Undersecretariat for Maritime Affairs

Capacity & Specifications

The container designed capacity is 2.5 mn TEU

Mersin International Port is located on a total port area of 110 hectares, while the total quay length of the port is 3,295 m. There are 21 berths at the port, over approximately 15 million tons of cargo are handled every year. Multi-purpose facilities cater for all types of cargo including container, general cargo, project cargo, ro-ro, dry and liquid bulk.

The port's container designed capacity is 2.5 mn TEUs per annum, meaning that the it can handle 2.5 mn TEUs capacity by only increasing the number of cranes currently serving the port.

Figure 43: Mersin Port– Capacity & Specifications

Facilities		
Total berths	#	21
Conventional cargo/ Ro-Ro Berths	#	5
Container only Berths	#	6
Multipurpose berths (Including Container Berths)	#	10
Quay Length	meters	3,295
Area	hectares	110
Max Depth at Chart Datum	meters	14
Quay Cranes	#	5
Mobile Harbour Cranes	#	5
Container Designed Capacity	TEU ('000)/year	2,500
General Cargo Handling Capacity	Ton ('000)/year	1,000
Dry Bulk & Liquid Bulk Handling Capacity	Ton ('000)/year	5,900

Source: MIP

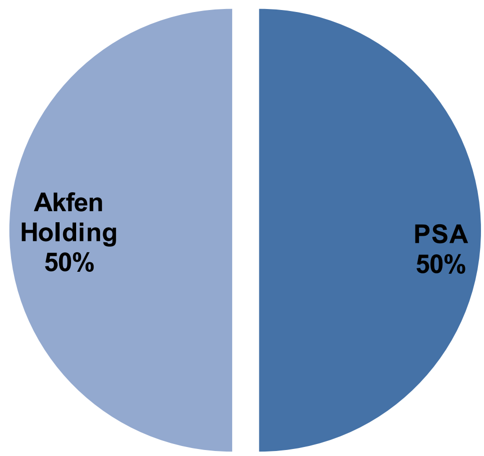
Partnership with PSA is an important asset

PSA is one of the biggest port operators in the world operating 28 ports in 16 countries

PSA is one of the biggest port operators in the world operating 28 ports in 16 countries with a global capacity of 111 mio TEUs over 66 km of quay length, among which the world's busiest port Singapore Terminals is the flagship company of the group. Based on PSA international news release April 3rd, 2010, in 2009, PSA's container volume dropped 9.9% to 56,9 mio TEU from a total output of 63.2 mn TEUs in 2008. As a footnote, total container handling figure of Turkey was only 5.2 mn TEUs in 2008.The decline in PSA's flagship terminal in Singapore and outside of Singapore registered -13.1% and -7.1% growth, respectively. Thanks to relatively better performance of MIP, the international operations of PSA registered smaller decline,

PSA's presence as one of the major shareholders of MIP provides an advantage over its peers as major trading lines like Zim line in the global maritime transportation prefer MIP.

Figure 44: Mersin Port– Shareholding Structure



Source: Company

Favorable location provides a significant growth potential

Mersin Port is located on the Southeastern Coast of Turkey, which is a favorable location to reach major ports in Eastern and Mid-Mediterranean Region. The nearest container port is located ca 500 km away from Mersin port and therefore, the company enjoys a monopolistic position.

Railway connections to Southeastern and Central Anatolia provides easy access to hinterland

In October 2008, MIP completed the investment for a new dedicated container rail terminal, providing direct railway connections to Southeastern and Central regions of Turkey. The hinterland of the port is defined with fast growing major cities in Southeastern and Central Anatolia including Adana, Gaziantep, Kayseri, Konya, Kahraman Maras, Mersin, Karaman and Osmaniye. The CAGR of foreign trade volume in the hinterland of MIP has been 19% for 2002-2009 period, whereas the growth in Turkey's total foreign trade has been 3pp lower at 16%. Following the completion of the Southeastern Anatolia Project (GAP), the trading volume in the Southeastern Anatolia is expected to grow significantly, which will lead to relatively high growth rates of the region compared to Turkey's total performance.

Figure 45: Foreign Trade Growth Trend of MIP's hinterland

Export Volumes (USD k)	2002	2003	2004	2005	2006	2007	2008	2009	CAGR
Adana	461	565	816	884	959	1,166	1,304	1,135	14%
Gaziantep	620	866	1,295	1,653	1,858	2,448	3,237	2,952	25%
İçel	320	497	507	621	775	893	1,076	1,048	18%
Kayseri	352	465	640	703	752	978	1,122	963	15%
Konya	130	179	276	420	494	694	871	735	28%
K.Maraş	110	139	206	229	286	326	379	431	21%
Karaman	36	50	58	63	90	127	158	146	22%
Osmaniye	1	1	1	2	1	3	7	10	46%
Region Total	2,029	2,762	3,799	4,574	5,214	6,633	8,155	7,420	**20%**
Turkey	36,059	47,253	63,167	73,476	85,480	107,272	132,027	102,129	**16%**
Share	*5.6%*	*5.8%*	*6.0%*	*6.2%*	*6.1%*	*6.2%*	*6.2%*	*7.3%*	

Import Volumes (USD k)	2002	2003	2004	2005	2006	2007	2008	2009	CAGR
Adana	619	845	1,125	1,265	1,441	1,919	2,152	1,693	15%
Gaziantep	658	1,000	1,332	1,686	1,846	2,269	2,793	2,127	18%
İçel	164	273	332	406	466	733	957	689	23%
Kayseri	408	494	819	913	1,095	1,291	1,388	1,002	14%
Konya	162	245	378	427	556	696	775	583	20%
K.Maraş	201	265	334	357	436	812	531	546	15%
Karaman	16	21	21	24	42	60	49	43	16%
Osmaniye	1	2	4	6	10	36	48	28	57%
Region Total	2,228	3,144	4,344	5,084	5,892	7,816	8,693	6,712	**17%**
Turkey	51,554	69,340	97,540	116,774	138,233	170,063	201,964	140,926	**15%**
Share	*4.3%*	*4.5%*	*4.5%*	*4.4%*	*4.3%*	*4.6%*	*4.3%*	*4.8%*	

Foreign Trade (USD k)	2002	2003	2004	2005	2006	2007	2008	2009	CAGR
Adana	1,080	1,410	1,941	2,149	2,400	3,085	3,456	2,828	15%
Gaziantep	1,278	1,866	2,627	3,339	3,704	4,717	6,030	5,080	22%
İçel	483	770	839	1,027	1,241	1,626	2,032	1,737	20%
Kayseri	760	959	1,458	1,616	1,847	2,269	2,510	1,965	15%
Konya	292	424	653	847	1,049	1,390	1,647	1,318	24%
K.Maraş	312	403	540	586	722	1,138	911	976	18%
Karaman	52	71	79	87	131	187	208	189	20%
Osmaniye	2	3	4	7	11	39	54	38	54%
Region Total	4,257	5,907	8,143	9,658	11,106	14,449	16,848	14,131	**19%**
Turkey	87,613	116,593	160,707	190,251	223,713	277,334	333,991	243,055	**16%**

Source: TURKSTAT

Figure 46: Major Ports in the Mediterranean Region

Source: MIP

Diversified services satisfy the customers' needs in every aspect

Unlike most of its competitors, Mersin port offers a variety of port services to its customers in every segment. The multipurpose nature of the port is an unquestionable advantage for MIP to grow its revenues in the upcoming years.

Figure 47: MIP– Services

Container Services	Cargo Services	Marine Services	Other Services
- Loading/Unloading/Shifting	- General Cargo	- Piloting	- Sludge Disposal
- Container Lashing/Unlashing	- Project Cargo	- Tow ing	- Garbage Disposal
- Coning/Deconing	- Ro Ro Cargo	- Mooring/Unmooring	- Fresh Water Supply
- Container Freight Station	- Dry Bulk Cargo		
- X-Ray Inspection	- Liquid Bulk Cargo		
- Railw ay Connection			
- Reefer Monitoring			
- Dangerous Goods Area			
- Weighbridge			

Source: MIP

MIP will be able to adjust its tariffs according to free market conditions starting from May 2010

Tariff structure about to change favorably

Similar to the international practices Mersin Port applies US$ based tariffs for its services. According to the terms of the concession agreement, Mersin Port' tariffs have been regulated by the government for the first three years of the concession period. Thus, Mersin Port's tariffs were adjusted upwards only if the depreciation of TL against US$ was lower than the change in the consumer price index in the prevailing year.

This transition period will end as of May 2010. Accordingly, MIP will be able to implement market rates while adjusting its tariffs. Note that Mersin Port applies one of the lowest tariffs in the region like Haifa and Ashdod Ports in Israel, which provides a room for the company to enhance its revenues and margins starting from 2010.

We see no risk for the repayment of the senior debt facility acquired to finance the concession

Akfen-PSA consortium has paid a total of US$755 mn for the acquisition of the Mersin Port's operating licence in 2007. MIP's creditors for the deal were Unicredit, ABN Amro, GE, Garanti, İş Bank and TSKB at the time. The JV obtained a 13 year US$600 mn loan to finance this acquisition, which will be paid via the cash flows generated by Mersin port. Our cashflow forecasts suggest that MIP will have no difficulties in making these debt repayments.

The privatization of Iskenderun port is on the cards

Akfen Holding—PSA Consortium has won the privatization tender for Iskenderun port in 2005 with their US$80 mn bid. However, the tender was cancelled by the Council of State in December 2006. The government has plans to open a new tender and Akfen Holding—PSA partnership is still interested in the acquisition of Iskenderun Port. Due to its proximity to Mersin Port, the acquisition of the Iskenderun Port by another investor could be risky for MIP's future operations. However, both the huge investment requirement to convert Iskenderun Port into a container terminal and PSA's presence as the partner of MIP should create an entry barrier for other players to bid for the privatization of the Iskenderun Port.

Operations

MIP's revenues are classified under three major categories namely: i) Container Revenues ii) Conventional Cargo Revenues and iii) Marine Revenues

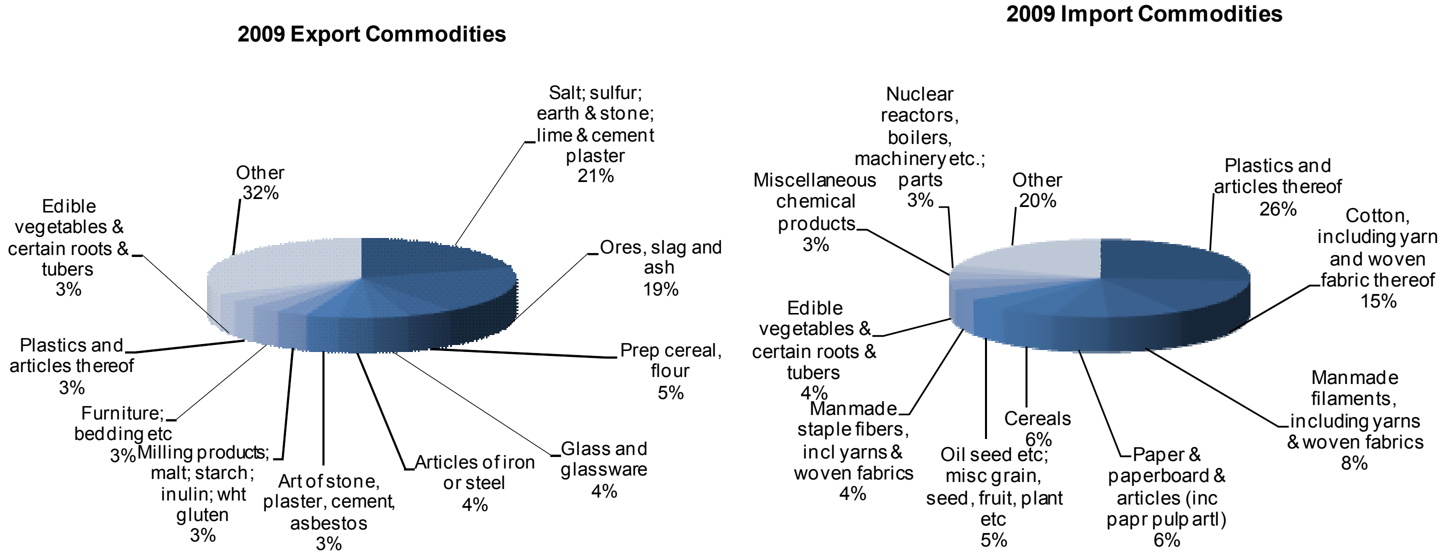
Container services have the highest share in revenues with 72% stake as of 2009

- **i) Container Services:** Container revenues are the most important revenue source of the port, which captured 72% share in MIP's total revenues in 2009. The sub segments of container revenues could be listed as container handling revenues, container freight service revenues, lift-on lift-off service revenues and storage revenues. Thanks to its shareholder PSA's expertise in container handling and the port's favorable layout, MIP sees container revenues as the major growth driver in the long term. We expect the share of container revenues in MIP's total revenues to reach gradually 89% by 2027 and remain at this level until the end of the license period of the company in 2043.

  Chemical & minerals, cotton & textiles and food and beverages have the major share in container volume handled at the port in 2009.

- **ii) Conventional Cargo Services:** Conventional cargo revenues include general cargo, liquid bulk cargo, dry bulk cargo and Ro-Ro revenues. These revenues had 17% share in MIP's total revenues in 2009. Generally, conventional cargo services are less profitable compared to container services. Therefore, MIP does not target to grow its conventional cargo business in future except the Ro-Ro services. Thus, a large portion of conventional cargo revenue item should be gradually replaced with container revenues in upcoming years because the additional port area required for container handling should be replaced with the area used for conventional cargo services.

Figure 48: MIP—Breakdown of container volume (2009)

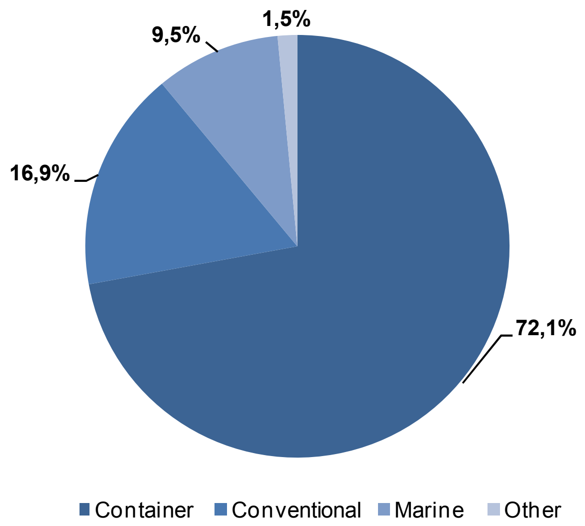


Source: MIP

Tariffs for marine services are regulated by the government

- **iii) Marine Services:** MIP provides marine services under Marine Co, of which 99% stake is owned by MIP. Marine revenues had 9.5% stake in MIP's total revenues in 2009. Marine services include piloting, towage, mooring/unmooring and dockage revenues. According to the cabotage law, marine service tariffs are regulated by the government. Therefore, leaving aside the growth potential in volume, MIP may not have a flexibility to improve its marine tariffs in future.

Figure 49: MIP—Revenue Breakdown (2009)



Source: MIP

Cargos handled in the port are classified under for major categories namely i) exports, ii) imports, iii) transit and iv) transshipment cargos.

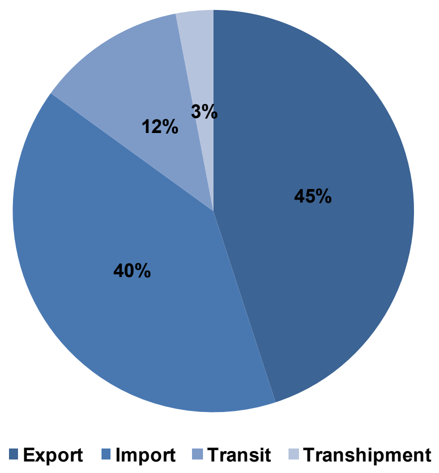
i) Exports: This category is defined with the cargos shipped from the port's hinterland to international countries. Exports have 45% share in MIP's total cargo volume in 2009. Export revenues are expected to grow in upcoming years in line with the government's ambitious export targets.

ii) Imports: Imports are defined with the cargos imported from various countries and has 40% stake in total cargos handled at the port in 2009. This segment also has a high growth potential parallel to the increase in foreign trade targets.

Iii) Transit: Transit cargos are the cargos which are directly transferred within Turkey via either railways or trucks.

iv) Transhipment: Transhipment cargos are the cargos, which are transferred from a large ship to a smaller vessel or vice versa at the port to be carried further to other ports. Since the transhipment cargos have a small share in current operating figures of MIP, it has the highest growth potential compared to other categories mentioned above. Thanks to the additions to its container capacity, MIP targets to attract major trading lines and expand its market share in this segment in upcoming years.

Figure 50: MIP— Breakdown by Cargo Type (2009)



Source: MIP

Snapshot on 2009 financial tables

Since Mersin International Port's functional currency is US$, the company reports US$ based IFRS results. Still, we have prepared TL based financial tables for presentation purposes at the end of this section.

MIP reported US$10 mn of net income in 2009, up from the US$0.2 mn of net loss recorded in the same period a year ago. The increase is mainly related to the decline in financing costs and deferred tax expenses recorded a year ago.

Despite the 2% YoY decline in container handling volume, operating revenues remained constant at US$151.9 mn. Note that MIP by far outperformed the global port industry in 2009, which contracted 9.9% YoY, and succeeded to become the best performing company among the 28 ports operated by one of its controlling shareholders PSA, which is the largest container port operator in the world.

Port services are high margin businesses by nature. MIP enjoyed an EBITDA margin of 52% in 2009, up by 3pp compared to the 49% recorded in 2008 Thus, MIP's EBITDA came at US$79.5 mn in 2009, slightly below the US$80.6 mn reported in 2008.

MIP carries US$629 mn of net debt as of 2009 mainly coming from the US$600 mn senior debt acquired to finance the acquisition of the port in 2007 and the US$100 mn of mezzanine loan. Thus the company recorded US$52 mn of net financing expense in 2008, which has declined to US$43 mn in 2009 thanks to the declining trend in the interest rates.

Valuation & Key Assumptions

DCF Assumptions

We believe that discounted cashflow (DCF) analysis is the most suitable method in valuing MIP due to the concession type nature of the business and the huge growth potential of the cargo volume of the port, which could not be fully reflected on medium term revenue assumptions, i.e. leading to understated equity valuations, when we apply peer group multiple comparison methodology.

Major assumptions of our DCF based valuation model are explained as below:

Demand

There are three major approaches in forecasting the demand growth of a port

Demand growth is the main driver behind the revenue potential of Mersin Port, which is closely related to the GDP growth, population growth and the increase in foreign trade activities of a country. Economic growth and global trade have been significant vectors for the growth of mobility. The level of activity and the structure of national economies, as well as their trade patterns influence the national and global transport systems. Yet this process is subject to cycles of growth and recession.

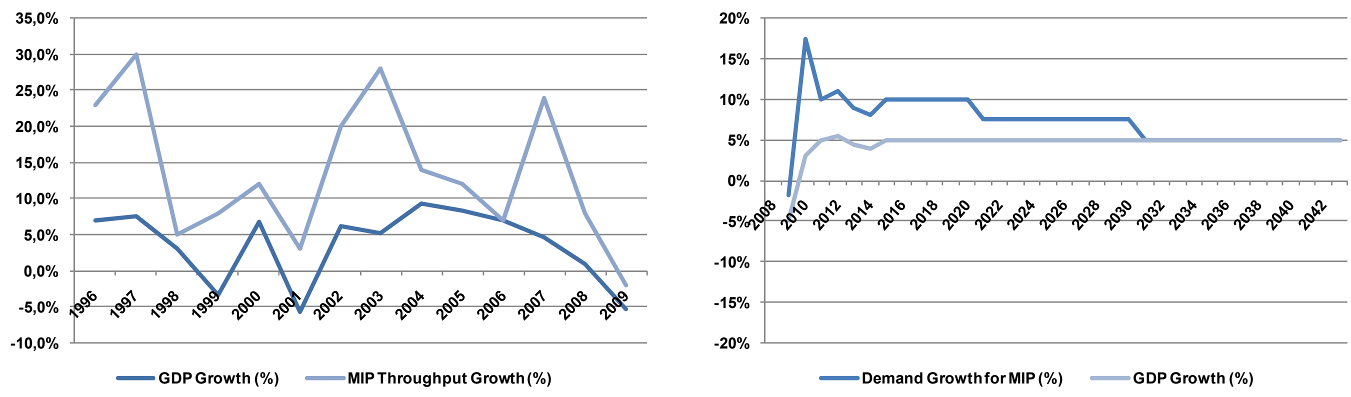
There are three major approaches in forecasting the volume growth of a port: i) The GDP growth multiplier approach, ii) Target Population/TEU ratio approach and iii) Foreign trade growth multiplier approach.

i) GDP multiplier approach:

The graph below illustrates the correlation between the throughput of Mersin port and the GDP growth of Turkey. MIP's throughput grew at an average multiple of 3x between the years 1995-2009 (except the years when we have negative GDP growth) compared to the GDP growth. Even in crisis years when we witnessed a contraction in economy, the decline in TEU growth of Mersin remained relatively limited.

In our base case model, we assumed that the growth in demand for Mersin Port is a multiple of the expected growth in GDP. Accordingly, we forecast that the demand will increase at 2x of the expected growth in GDP for 2011-2020 period then gradually fall to 1.5x during 2020-2030 period and finally will touch 1x level from 2030 on until the end of the licence period. Accordingly, the demand in the region reaches 9.8 mn TEU by 2043 in our base case scenario. However, please note that MIP has certain capacity constraints and according to the feasibility studies, the port's container capacity could be extended maximum to 4.8 mn TEUs. In our base case scenario, we assumed that the MIP's capacity would reach 4.2 mn TEUs by 2027 and remain at this level thereafter.

Figure 51: GDP growth vs MIP Throughput Growth



Source: MIP, TUIK & Is Investment Estimates

ii) Population/TEU approach:

Population per TEU is a good indicator for a country's economic level compared to other countries. A low population per TEU ratio means that the country is having a high trading activity and is using maritime transportation efficiently.

Mediterranean region's container handling demand should reach 5.4 mn TEUs by 2043

Turkey's population per TEU ratio is calculated as 16.3x as of YE 2009, whereas the EU-27 average and EU-15 average stand at 6.1x and 4.1x, respectively. We have conducted an analysis assuming that Turkey will reach the EU-27 population per TEU figure by 2026 and will touch EU-15 average figure by the end of MIP's concession as of 2043. Based on the constant annual population growth figure of 0.13%, Turkey's total handling figure should increase to 26.4 mn TEUs by the end of 2043 from the 4.4 mn TEUs as of 1999.

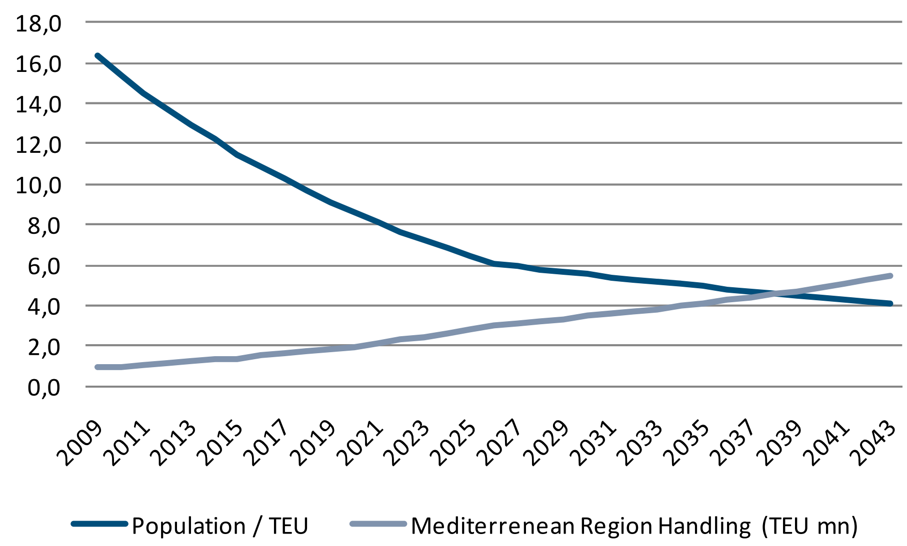
If we keep the Mediterranean Region's share in Turkey's total handling demand constant at 20.6%, the total containers handled in the Mediterranean Region should reach 5.4 mn TEUs up from the 0.9 mn TEU's as of YE09. This number also supports our base case scenario, where we assumed that MIP's total container handling capacity will reach 4.2 mn TEUs by 2026.

Figure 52: Population and TEU Assumptions

Population & TeU Assumptions	
Population (2009 YE)	72.6
Annual Population Growth Forecast	0.13%
2009 TeU	4.4
2008 Population/ TEU	13.8
2009 Population / TEU	16.3
2026T Population /TEU	6.1
2043T Population /TEU	4.1
Mediterrenean Region Handling / Turkey Handling (2009)	20.57%
2026T TEU for Mediterrenean Region	3.0
2043T TEU for Mediterrenean Region	5.4

Source: IS Investment

Figure 53: Mediterranean Region Container Handling Forecasts



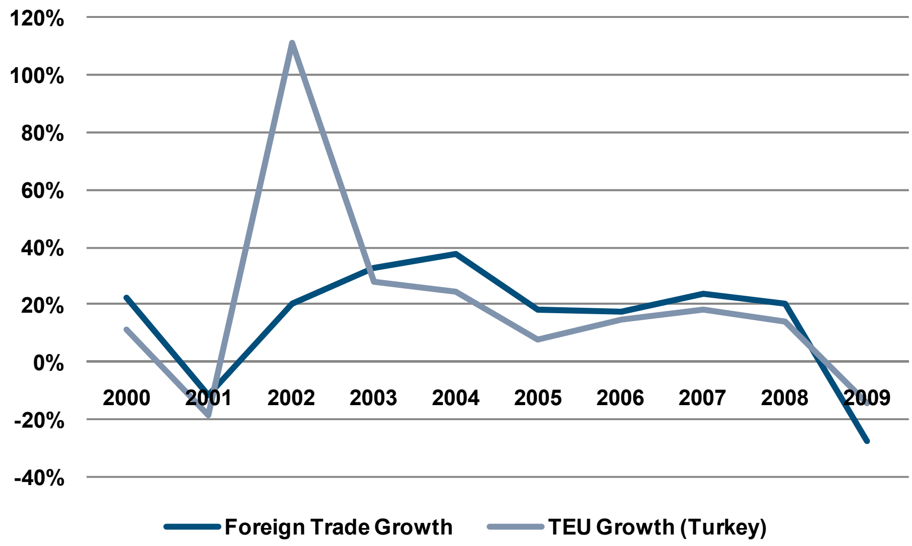
Source: IS Investment

iii) Foreign trade growth multiplier approach:

Foreign trade growth and the TEU growth are highly correlated

Foreign trade growth and the TEU growth is also highly correlated. While Turkey's foreign trade grew at a CAGR of 14% between 2000 and 2009, the average annual growth rate for Turkey's total container handling figure has been 16% in the same period. The graph below illustrates the relation between the growth in containers handled in Turkey and the foreign trade activities. Turkish government targets to achieve a foreign trade figure level of US$1,000 bn in 2023, suggesting a CAGR of 10%. If we assume the same growth rate for the maritime trade, Turkey's total container handling should easily reach 18 mn TEUs level by 2023.

Figure 54: Foreign Trade vs TEU Growth

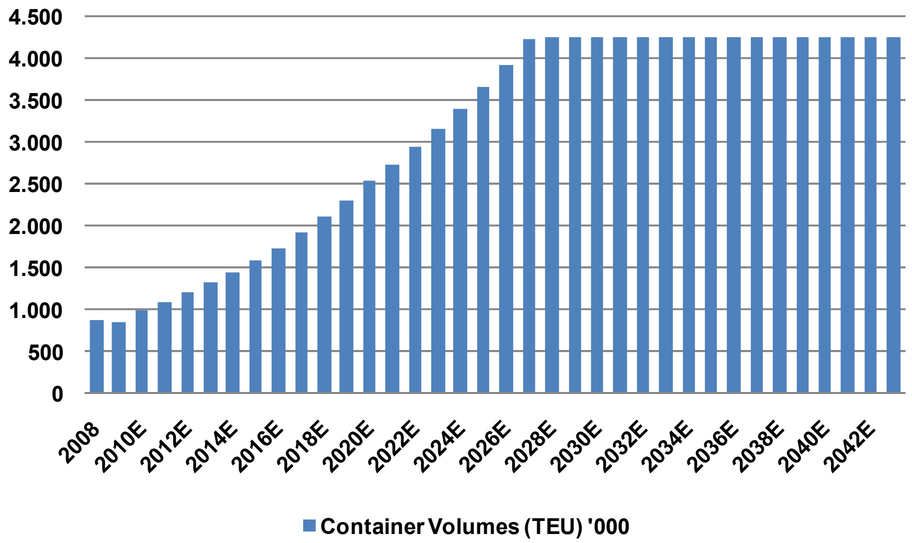


Source: TUIK & Undersecretariat for Maritime Affairs

Throughput

In our base case model, we assumed MIP's throughput to grow at a CAGR of 10.5% until 2020 and then gradually fall to 7.5% between 2020-2027 and then remain at 4.2 mn TEUs until the end of the licence period in line with the capacity constraints.

Figure 55: MIP—Throughput ('000) TEU



Source: IS Investment

Tariffs

MIP will be allowed to freely adjust its tariffs starting from May 2010. The table below illustrates our forecasts for tariff adjustments starting from 2010. As an example we assumed 8% increase in container handling tariffs both in 2010 and 2011. Likewise, container freight service tariffs are expected to increase by 15% and 11% in 2010 and 2011, respectively.

Average container handling tariffs should grow at a CAGR of 1.3% for 2009-2043 period

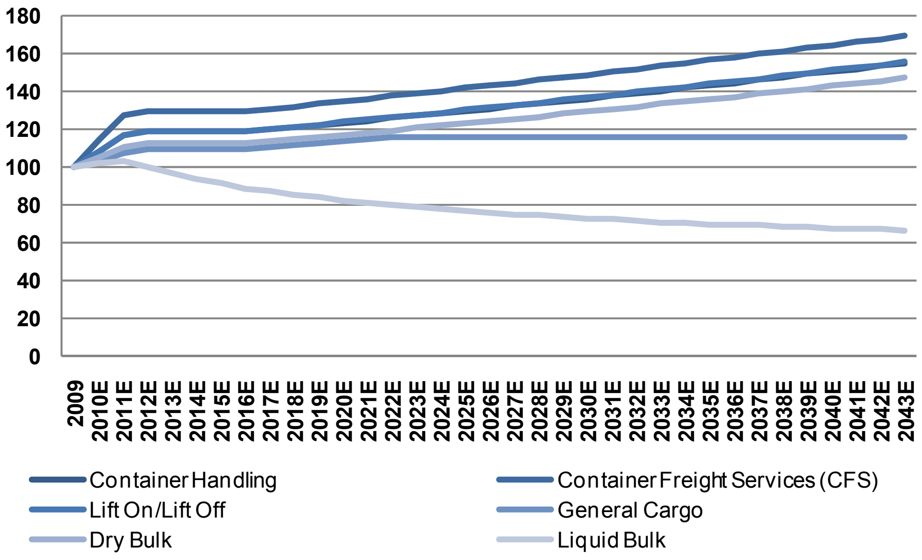
Following the significant upward adjustments in tariffs for the major segments in 2010 and 2011, we assumed for the remaining part of the forecast period that the tariff increases will only reflect the difference between the depreciation in TL against US$ and TL inflation as it was the common practice between May 2007– May 2010.

Figure 56: MIP— Changes in Tariffs

							CAGR (%)		
		2009	2010E	2015E	2020E	2043E	2009-2020	2020-2043	2009-2043
Container									
Handling	$/box	84.7	91.4	100.2	104.4	131.2	1.9%	1.0%	1.3%
CFS	$/box	124.9	143.3	161.4	168.1	211.4	2.7%	1.0%	1.6%
LoLo	$/box	32.0	34.7	38.0	39.6	49.8	2.0%	1.0%	1.3%
Conventional									
General Cargo	$/ton	7.9	8.1	8.6	9.0	0.0	1.2%	n.m.	n.m.
Dry Bulk	$/ton	3.6	3.8	4.1	4.2	5.3	1.4%	1.0%	1.1%
Liquid Bulk	$/ton	0.7	0.7	0.6	0.5	0.4	-1.8%	-0.9%	-1.2%
Roro	$/vehicle	28.3	28.3	29.4	30.7	38.6	0.7%	1.0%	0.9%

Source: IS Investment

Figure 57: MIP— Tariff Index (2009=100)



Source: IS Investment

Revenues

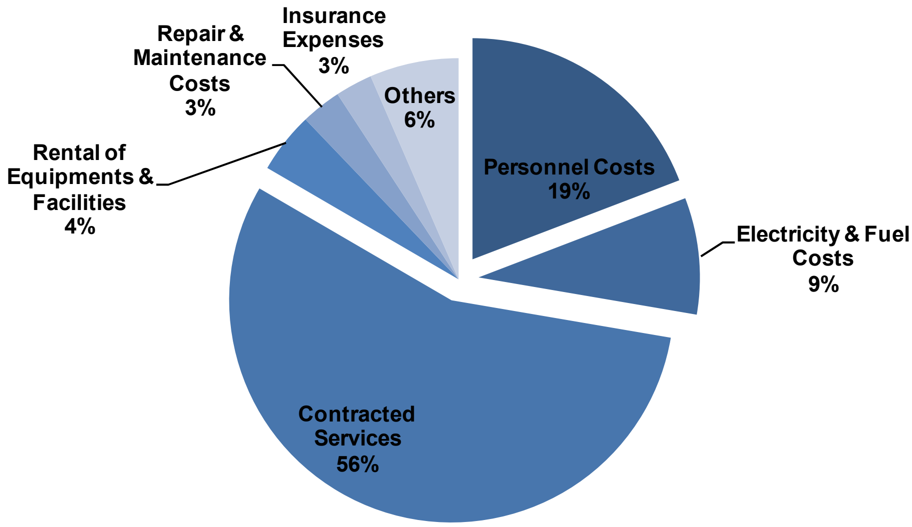
Parallel to the increase in container handling capacity and favorable demand conditions, we expect MIP's revenues will grow at a CAGR of 5% in US$ terms between 2009-2043 period. While revenue growth will be relatively higher at 9.6% for 2009-2020 period, it will decelerate to 3% for remaining part of the license period owing to the full capacity of 4.2 mn TEUs reached in 2027. We have also assumed that conventional cargo revenues to decline at a CAGR of -1.7% since the capacity expansion in container capacity will require the utilization of the land currently used by conventional cargo services.

As a result, we forecast that MIP's operating revenues will reach US$806 mn by 2043 up from the US$152 mn in 2009.

Operating Costs & EBITDA:

Wages and salaries, fuel and electricity costs and third party contracts capture the majority stake in total operating costs of Mersin Port with 83% share as of 2009. We forecast MIP's EBITDA to grow at a CAGR of 6% until the end of the license period. Since the increase in operating expenses are relatively low compared to the expected growth in revenues, EBITDA margin is set to touch 72% by 2043 from the 53% recorded in 2009.

Figure 58: MIP—Breakdown of Opex* (2009)



** based on statuory accounts*
Source: MIP (2009) & IS Investment

Figure 59: MIP—Revenue & EBITDA Forecasts

US$ mn	2009	2010E	2015E	2020E	2043E	CAGR (%) 2009-2020	2020-2043	2009-2043
Operating Revenues	152	184	294	415	806	9.6%	2.9%	5.0%
-Container	112	138	237	346	709	10.8%	3.2%	5.6%
-Conventional Cargo	25	28	30	25	14	0.0%	-2.5%	-1.7%
-Marine revenues	13	16	24	40	75	10.8%	2.8%	5.3%
-Other revenues	2	2	3	3	8	5.0%	3.5%	4.0%
EBITDA	79	104	184.6	272.3	583.6	11.9%	3.4%	6.1%
EBITDA margin (%)	52%	56%	63%	66%	72%			

Source: MIP (2009) & IS Investment

Capex & Capacity

In line with the increasing demand, we assumed that Mersin Port's container handling capacity will gradually increase to 4.2 mn Teu by 2026, while the conventional cargo capacity will decline accordingly from 6.9 mn tons pa to 2.3 mn tons pa due to the limitations of the land for container storage.

Thanks to the favorable specifications of the port, the additions to the container handling capacity do not require high amounts of investments. We forecast US$26 mn of average capex per annum until the end of 2026, where the total berth capacity will reach its peak with 4.2 mn TeU. For the period between 2027-2043, annual capex requirement declines to US$19 mn.

Figure 60: MIP—Capacity Forecasts

	2009	2010E	2015E	2020E	2025E	2030E	2035E	2040E	2043E
Container Capacity ('000 TEUs)	1,239	1,239	2,047	2,685	4,041	4,243	4,243	4,243	4,243
General Cargo Capacity ('000 tons)	1,000	1,000	1,000	300	-	-	-	-	-
Dry Bulk Capacity ('000 tons)	5,100	5,100	5,000	4,000	1,500	1,500	1,500	1,500	1,500
Liquid Bulk Capacity ('000 tons)	800	800	800	800	800	800	800	800	800
CFS Capacity ('000 tons)	163	145	210	150	150	150	150	150	150

Source: MIP (2009) & IS Investment

Forecast period

Our forecast period is 33 years from 2010 to 2043, which is the end-date of the operating license for the port acquired from the Privatization Administration.

Tax rate

We have not changed the current corporate tax rate throughout the forecast period and taken it constant at 20%.

WACC assumptions

We have taken risk free rate at 6%, benchmarking to 2010 Turkish Treasury Eurobonds, equity risk premium as 5% and beta as 1x.

Figure 61: WACC Assumptions

WACC Calculation	2009	2010	2015	2020	2025	2030	2035	2040	2043
Risk free rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta (L)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Equity	60.9%	61.3%	68.7%	92.3%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Equity (keL)	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Debt	39.1%	38.7%	31.3%	7.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Debt	6.7%	6.8%	7.7%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
After tax cost of debt	5.4%	5.5%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
WACC	8.8%	8.9%	9.5%	10.6%	11.0%	11.0%	11.0%	11.0%	11.0%

Source: MIP (2009) & IS Investment

The DCF valuation for MIP in our base case scenario yields an equity value of US$1,078 mn. Akfen Holding's 50% stake in the company is valued at US$539 mn accordingly.

Figure 62: DCF Valuation— Summary Table

US$ mn	2010E	2011E	2012E	2013E	2014E	2015E	…	2020E	…	2043E
Revenues	**184.22**	**213.94**	**238.07**	**256.71**	**272.82**	**294.22**		**346.48**		**793.57**
Operating Profit	**78.23**	**96.49**	**113.13**	**125.62**	**134.66**	**149.19**		**180.53**		**555.96**
Operating Margin	*42.5%*	*45.1%*	*47.5%*	*48.9%*	*49.4%*	*50.7%*		*52.1%*		*70.1%*
Depreciation	-25.76	-29.42	-31.57	-32.12	-34.75	-35.38		-39.39		-16.87
EBITDA (US$ mn)	**103.98**	**125.92**	**144.70**	**157.73**	**169.41**	**184.57**		**219.92**		**572.83**
EBITDA Margin	*56.4%*	*58.9%*	*60.8%*	*61.4%*	*62.1%*	*62.7%*		*63.5%*		*72.2%*
∆ NWC (-)	-3.1	-2.9	-2.4	-1.8	-1.6	-2.1		0.0		0.0
Capex (-)	-16.9	-21.2	-14.1	-7.1	-18.1	-20.4		-17.5		-2.1
Tax (-)	-15.6	-19.3	-22.6	-25.1	-26.9	-29.8		-46.3		-114.9
FCF	68.2	82.5	105.6	123.7	122.8	132.3		208.6		101.8
DCF	64.0	71.0	83.1	88.8	80.2	78.5		70.4		3.0
Sum of DCF	**1,707**									
Net Debt (2009YE)	**629**									
Equity Value	**1,078**									
Akfen Holding's Share (50%)	**539**									

Source: IS Investment

Scenario Analysis

MIP's valuation is very sensitive to the changes in demand. We have employed a worse case and a best case scenario in order to see the upside and the downside of the business.

- **Bull Scenario**: We assumed that the MIP's container handling demand will grow 2x the GDP growth until the end of our forecast period.
- **Bear Scenario:** We assumed that container handling demand will increase 1x GDP throughout the whole forecast period.

The table below summarizes the equity valuations based on different growth scenarios. MIP's equity valuation ranges between US$741mn—US$1,186mn according to our worst case, base case and best case scenarios.

Figure 63: Scenarios Summary

	Bear	Base	Bull
GDP multiplier (2010-2020)	1.5x	2x	2x
GDP multiplier (2020-2030)	1.0x	1.5x	2x
GDP multiplier (2030-2043)	1.0x	1.0x	2x
Peak Capacity (TeU mn)	4.2	4.2	4.8
MIP - Equity Value (US$ mn)	**741**	**1,078**	**1,186**
Akfen Holding's Stake (US$ mn)	370	539	593

Peer Comparison

International Peer Comparison yields a wide valuation range for MIP

We have chosen a group of global port companies to compare Mersin International Port based on 2010E, 2011E and 2012E EV/EBITDA and P/E multiples International peer group multiples analysis suggests a wide equity valuation range of -US$641 mn to US$1,088 mn for MIP. Please note that multiple comparison is not suitable for Mersin International Port considering the significant growth targets in throughput from the current 0.9 mn TeUs to 4.2 mn TeUs by 2027.

Figure 64: Peer Group Multiples

Ticker	Company	Bloomberg Estimates						Country
		EV/EBITDA			P/E			
		2010E	2011E	2012E	2010E	2011E	2012E	
PPA GA	PIRAEUS PORT AUTHORITY	8.1	8.2	9.7	16.7	23.4	26.8	GREECE
601008 CH	LIANYUNGANG -A	n.m.	n.m.	n.m.	55.0	32.7	25.4	CHINA
POT NZ	PORT OF TAURANGA	13.3	12.2	11.4	20.0	18.6	17.0	NEW ZEALAND
600717 CH	TIANJIN PORT -A	13.2	11.8	9.8	25.9	22.5	17.7	CHINA
600018 CH	SHANGHAI INTL PORT -A	15.3	14.0	12.7	27.7	23.0	30.1	CHINA
13 HK	HUTCHISON WHAMPAO	9.7	8.7	8.8	17.6	13.0	10.6	HONG KONG
DPW DU	DP WORLD LTD	12.2	10.6	9.8	24.5	18.9	17.2	UAE
ICT PM	INTL CONTAIN TERMINAL	7.3	6.4	5.5	18.4	15.2	14.0	PHILLIPINES
MSEZ IN	MUNDRA PORT	30.2	21.6	15.3	42.2	30.7	19.7	INDIA
HHFA GR	HAMBURGER HAFEN	8.2	7.2	6.3	29.9	22.9	19.4	GERMANY
	MEDIAN	**12.2**	**10.6**	**9.8**	**25.2**	**22.7**	**18.5**	
	Implied Equity Value for MIP	641.2	705.6	790.5	751.0	1,004.9	1,087.7	

Source: IS Investment & Bloomberg Estimates

Figure 65: Summary of Key Financials for MIP

Income Statement (TL mn)	2008A*	2009A*	2010E	2011E	2012E	2013E	2014E
Revenues	214	240	288	349	405	461	522
EBITDA	105	125	162	206	246	283	324
Depreciation & Amortisation	30	37	40	48	54	58	66
EBIT	75	88	122	158	192	225	257
Other income (expense), net	0	2	3	5	7	9	11
Financial expenses, net	(67)	(67)	(64)	(67)	(68)	(64)	(58)
Minority Interests	0	2	3	5	7	9	11
Income before tax	8	21	58	90	125	161	199
Taxation on Income	(8)	(4)	(12)	(18)	(25)	(32)	(40)
Net income	(0)	17	47	72	100	129	159
Cash Flow Statement (TL mn)							
Net Income	(0)	17	47	72	100	129	159
Depreciation & Amortisation	30	37	40	48	54	58	66
Indemnity Provisions	n.a.	0	0	0	0	0	0
Change in Working Capital	n.a.	(3)	(6)	(6)	(6)	(6)	(6)
Cash Flow from Operations	n.a.	51	81	114	148	180	220
Capital Expenditure	n.a.	10	81	77	68	59	91
Free Cash Flow	n.a.	41	(1)	37	80	121	129
Rights Issue	n.a.	0	0	0	0	0	0
Dividends Paid	n.a.	0	0	0	0	0	0
Other Cash Inflow (Outflow)	n.a.	10	11	4	2	(3)	8
Change in net cash	n.a.	50	10	41	82	119	137
Net Cash	n.a.	(958)	(948)	(907)	(825)	(706)	(570)
Balance Sheet (TL mn)							
Tangible Fixed Assets	10	19	35	64	78	79	104
Intangibles	1,127	1,090	1,115	1,121	1,136	1,170	1,207
Goodwill	0	0	0	0	0	0	0
Long-term financial assets	0	0	26	0	0	0	0
Inventories	0	1	1	1	1	1	2
Trade receivables	32	45	58	70	81	93	106
Cash & equivalents	50	97	142	184	266	387	503
Other current assets	0	0	0	0	0	0	0
Total assets	1,252	1,262	1,362	1,451	1,574	1,743	1,934
Long-term debt	1,055	1,039	1,056	1,047	1,031	1,009	972
Other long-term liabilities	148	76	80	83	87	92	99
Short-term debt	3	15	34	44	60	85	100
Trade payables	12	23	30	36	42	48	54
Other short-term liabilities	0	1	1	1	1	1	1
Total liabilities	1,218	1,155	1,201	1,211	1,221	1,235	1,227
Minority Interest	0	0	0	0	0	0	0
Total equity	34	107	161	240	353	508	707
Paid-in capital	153	152	160	166	174	185	197
Total liabilities & equity	1,252	1,262	1,362	1,451	1,574	1,743	1,934
Ratios							
ROE (%)	-0.3	23.5	34.8	36.1	33.6	29.9	26.2
ROIC (%)	8.9	6.1	8.5	10.5	12.4	14.1	15.5
Invested Capital	1,156	1,132	1,179	1,220	1,255	1,297	1,364
Net debt/EBITDA (x)	n.a.	7.68	5.83	4.41	3.4	2.5	1.8
Net debt/Equity (%)	n.a.	894.5	590.2	377.8	233.7	138.9	80.6
Capex/Sales (%)	n.a.	4.1	28.1	22.1	16.7	12.8	17.4
Capex/Depreciation (x)	n.a.	0.3	2.0	1.6	1.3	1.0	1.4
EBITDA Margin	49.2	51.9	56.4	58.9	60.8	61.4	62.1
EBIT Margin	35.2	36.5	42.5	45.1	47.5	48.9	49.4
Net Margin	-0.1	6.9	16.2	20.7	24.6	28.0	30.6

Source: IS Investment

Figure 66: Summary of Key Financials for MIP

Income Statement (USD mn)	2008A*	2009A*	2010E	2011E	2012E	2013E	2014E
Revenues	164	153	184	214	238	257	273
EBITDA	81	80	104	126	145	158	169
Depreciation & Amortisation	23	24	26	29	32	32	35
EBIT	58	56	78	96	113	126	135
Other income (expense), net	0	1	2	3	4	5	6
Financial expenses, net	-52	-43	-41	-41	-40	-36	-30
Minority Interests	0	1	2	3	4	5	6
Income before tax excl. Minority Interest	6	13	37	55	73	90	104
Taxation on Income	-6	-3	-7	-11	-15	-18	-21
Net income	0	11	30	44	59	72	83
Cash Flow Statement (USD mn)							
Net Income	0	11	30	44	59	72	83
Depreciation & Amortisation	23	24	26	29	32	32	35
Indemnity Provisions	n.a.	0	0	0	0	0	0
Change in Working Capital	n.a.	-2	-3	-3	-2	-2	-2
Cash Flow from Operations	n.a.	32	52	71	88	102	117
Capital Expenditure	n.a.	30	35	46	17	9	23
Free Cash Flow	n.a.	3	17	25	71	93	93
Rights Issue	n.a.	0	0	0	0	0	0
Dividends Paid	n.a.	0	0	0	0	0	0
Other Cash Inflow (Outflow)	n.a.	-32	-49	-72	0	0	0
Change in net cash	n.a.	30	38	45	71	93	93
Net Cash	n.a.	-629	-591	-546	-475	-382	-289
Balance Sheet (USD mn)							
Property, plant & equipment	6	12	22	38	45	43	53
Intangibles	737	717	696	675	654	633	612
Goodwill	0	0	0	0	0	0	0
Long-term financial assets	0	0	0	0	0	0	0
Inventories	0	1	1	1	1	1	1
Trade receivables	21	30	36	42	47	50	54
Receivables from related parties							
Cash & equivalents	33	64	89	111	153	209	255
Other current assets	0	0	0	0	0	0	0
Total assets	819	829	849	873	906	943	980
Long-term debt	690	683	658	630	593	545	493
Other long-term liabilities	97	50	50	50	50	50	50
Short-term debt	2	10	21	27	35	46	51
Trade payables	8	15	19	22	24	26	28
Other short-term liabilities	0	0	0	0	0	0	0
Total liabilities	797	759	749	729	703	668	621
Minority Interest							
Total equity	22	70	100	144	203	275	358
Paid-in capital	100	100	100	100	100	100	100
Total liabilities & equity	819	829	849	873	906	943	980
Ratios (%)							
ROE	-1%	23%	35%	36%	34%	30%	26%
ROIC	6%	6%	8%	11%	12%	14%	15%
Invested Capital	756	744	735	734	722	701	691
Net debt/EBITDA	n.a.	791%	568%	433%	328%	242%	170%
Net debt/Equity	n.a.	894%	590%	378%	234%	139%	81%
Capex/Sales	n.a.	19.3%	19.0%	21.6%	7.1%	3.6%	8.5%
Capex/Depreciation	n.a.	1.26	1.36	1.57	0.54	0.29	0.67
EBITDA Margin	49%	52%	56%	59%	61%	61%	62%
EBIT Margin	35%	37%	42%	45%	48%	49%	49%
Net Margin	0%	7%	16%	21%	25%	28%	31%

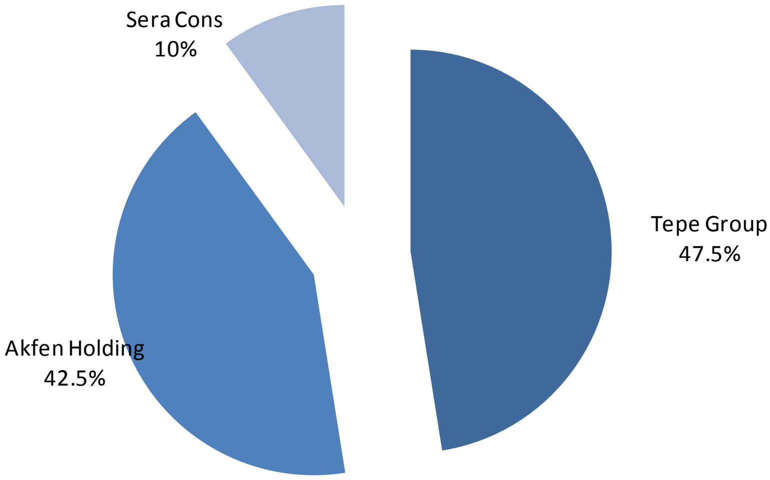
Source: IS Investment

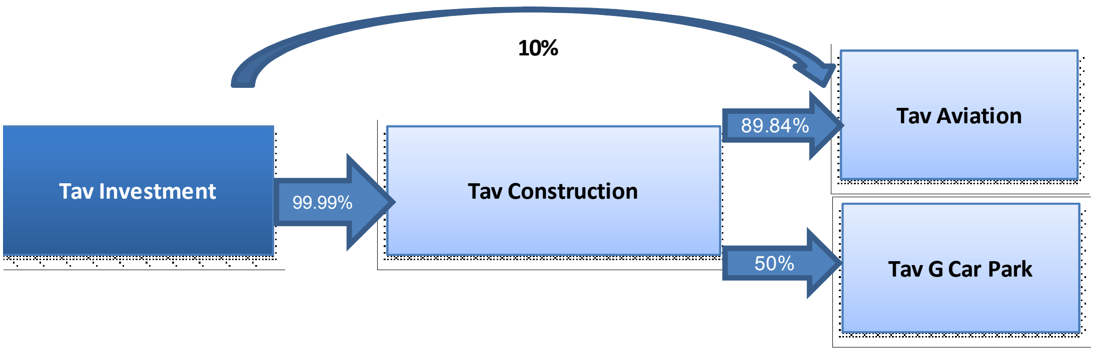
VI.3. TAV Construction

One of the most prominent airport construction companies of the world. Established in 2003 by Tepe and Akfen Groups, Tav Construction is an infrastructure construction company, which primarily operates as engineering and construction contractor in the aviation sector both in Turkey and abroad. In particular, TAV Construction operates in two divisions, one focusing on airport construction and related technical operations (i.e., runways, aprons, taxiways, air traffic control towers, fuel hydrant systems, utilities and other facilities as well as terminal buildings), project development and design, the other division enjoyed in high-rise building construction.

Akfen Holding holds a 42.5% stake in the company. TAV Construction is 99,99% subsidiary of TAV Investment, which is jointly controlled by Tepe Construction Group, with 47.5% stake and Akfen Holding, with 42.5% stake. The remaining 10% of the company is held by Sera Construction.

Figure 67: Tav Investment Shareholding Structure





Source: TAV Investment

Briefly on the shareholders. The major shareholder of TAV Construction is TAV Investment with 99.99% stake and the major shareholder of TAV Investment is Tepe Group, having a joint control of the company with 47.5%. Tepe Group was founded in 1969, by the founder of Bilkent University, the first private university of Turkey. Tepe Group is a focused conglomerate with investments in just infrastructure and construction businesses profits from which fund the university. Akfen Group, the 42.5% stakeholder of Tav Investment, was established by Hamdi Akin, chairman of Tav Airports Holding and 99.7% owner of Akfen Holding, in 1976 and reorganised in 1998. Sera Construction, on the other hand, is the minor shareholder of the company with 10% stake. Sera Construction was established in 1995, by Sani Sener, the CEO of Tav Airports Holding, and as an integrated group with investments in infrastructure projects and construction sectors.

The company bids mainly for the EPC and BOT projects. TAV Construction realizes its projects primarily under FIDIC based EPC contracts as well as EPC contracts under concession arrangements relating to private-public-partnership projects which are typically implemented by governments, and build-operate-transfer operations and concession schemes. The company works on lump-sum, cost-plus or unit-price basis.

The company allies forces with the global names in various projects ME region. TAV Construction has airport and high-rise building construction projects primarily in Turkey and five different countries located in the Middle East region, Africa and Eastern Europe. Depending on the specific type of the projects in which it is involved, TAV Construction operates through strategic alliances such as partnerships and joint ventures with internationally recognized construction industry contractors and subcontractors located in its focus areas. To show, the company works with Japan's TAISEI for Doha International Airport project and with CCC for Muscat Airport of Oman,.

The clients of the company are generally not sensitive to economic fluctuations. The clients of TAV Construction for its airport construction projects are mainly governmental organizations (such as civil aviation authorities) or the ministries responsible from transportation. There are just three high rise projects in the company's current backlog, all of which are located in Dubai. The company's clients for its high-rise building construction projects are private developers located in the UAE.

Figure 68: Major Clients and Business Partners

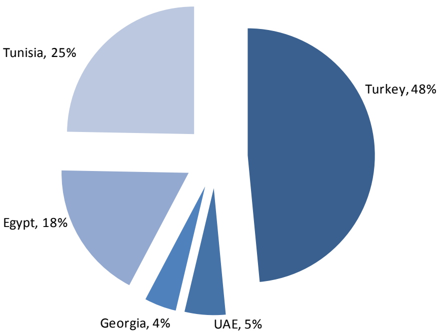
Client Name	Country
Turkish Civil Aviation Authority	Turkey
Emirates Airlines	UAE
Sultanate of Oman Ministry of Transportation	Oman
Qatar Government	Qatar
The Libyan Civil Aviation Authority	Libya
Emirates Financial Towers LLC	UAE
M/S Sheffield Holdings Ltd.	UAE
General Directorate of State Airports Authority	Turkey
Tav Airports Holding	Turkey

Partner	Country
CCC	Lebanon
TAISEI	Japan
ODEBRECHT	Brazil
AL KHARAFI & SONS	Kuwait
AL RAJHI GROUP	Saudi Arabia
EL SEIF CONS.	Saudi Arabia
ARABTEC CONS.	Saudi Arabia

Source: TAV Investment

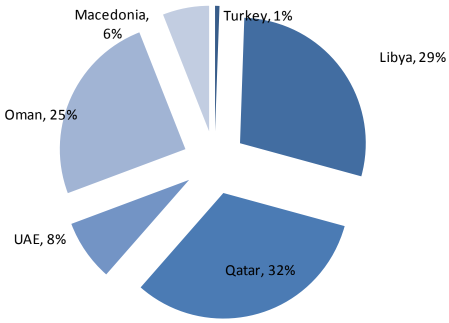
The company completed US$2.2bn projects up until now… Out of this US$2.2bn pile, the biggest part goes to the New Enfidha International Airport in Tunisia that has contract value of US$555mn and completed at the end of 2009. The second big-ticket project was Istanbul Ataturk Airport with a contract value of US$397mn. The company completed the project management of construction of new terminal buildings back in 2000. The company also completed the construction of domestic and international terminals and car park of Ankara Esenboga Airport under BOT contract in return for US$375mn and construction and the project management of international terminal and car park of Izmir Adnan Menderes Airport in exchange of US$242mn.

Figure 69: Completed Projects



Project Name	Contract Value, US$mn TAV's Portion	TOTAL
Istanbul Ataturk Airport International Terminal and Extension– Turkey	397	397
Dubai Emirates A380 Hangars Steel Roof– UAE	26	26
Ankara Esenboga International Airport – Turkey	375	375
Izmir Adnan Menderes International Airport – Turkey	242	242
Izmir Adnan Menderes International Airport Extension – Turkey	16	16
Tbilisi International Airport – Georgia	62	62
Batumi International Airport – Georgia	29	29
Istanbul Ataturk Airport Domestic Terminal Renovation – Turkey	60	60
Al Sharaf Shopping Mall, DUBAI – UAE	34	34
Tohid Iranian School, DUBAI – UAE	9	9
Cairo International Airport TB3 Terminal – Egypt	395	493
Majestic Tower In Al Memzar, Sharjah – UAE	48	48
New Enfidha International Airport – Tunisia	555	555
TOTAL	2,248	2,346

Source: TAV Investment



As of December 2009, backlog of the company stands at US$2.3bn… In the current backlog airport projects get the lion's share with a contract value of US$2.1bn, i.e. 92% of the current backlog, which is not surprising given the company's great expertise in airport construction, which is also verified by the completed projects. New Doha International Project in Qatar, with US$3,269mn project value, in which Tav Construction's share worth US$1,144mn dominates the company's current backlog with US$754mn remaining portion to be completed. Among the ongoing projects three of them are in UAE, all of which are high-rise buildings, two of them are in Turkey, and two of them are in Libya, one of them in Qatar, one of them in Oman and one of them in Macedonia.

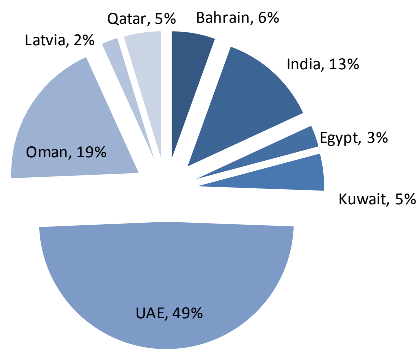
Figure 70: Ongoing Projects

	Contract Value, US$mn		
Project Name	TAV's Portion	TOTAL	Current Backlog
Airport (AHL) Development, Extension and Trigeneration Project, Turkey	89	89	8
New Sabha International Airport, Libya	140	279	140
New Doha Intl. Airport Passenger Terminal and Concourses A&B&C –Qatar	1,144	3,269	754
New Tripoli International Airport Terminal Buildings - Libya	671	2,682	532
Sulafa Tower Project, Dubai – UAE	99	99	11
Emirates Financial Tower Project, Dubai – UAE	110	110	26
Marina 101 Hotel and Residence, UAE	204	204	147
Alanya Gazipaşa Airport-Turkey	21	21	5
Oman - Muscat International Airport / MC-1 Package, Oman	585	1,170	579
Skopje and Ohrid Airports Construction and Renovation Works, Macedonia	140	140	140
TOTAL	3,203	8,063	2,342

Source: TAV Investment

US$13.1bn projects are under radar screen of the company. The company closely monitors thirteen projects currently which have a contract value of US$13.1bn. The planned portion of Tav Construction would be US$7.1bn if the consortiums the company takes part are granted with these projects. The company thinks that they have quite high chance to succeed in the four projects in UAE and Saudi Arabia that jointly worth some US$7.4bn, which implies around US$3.1bn addition to Tav Construction's backlog.

Figure 71: Follow-up Projects



Source: TAV Investment

	Contract Value, US$bn	
Project Name	TAV's Portion	TOTAL
Bahrain International Airport, Bahrain	350	350
New Mumbai Airport, India	800	800
Cairo International Airport TB2 Renovation Works, Egypt	175	350
Kuwait International Airport – Civil Works, Kuwait	300	600
Sharjah International Airport Project, UAE	800	800
Oman- Muscat International Airport/Ancillary Buildings (MC-2), Oman	100	200
Oman- Muscat International Airport / Building Works (MC-3), Oman	1,000	2,000
Madina Prince M. Bin Abdulaziz Airport, Saudi Arabia	800	800
Sohar International Airport Project, Oman	100	200
Doha International Airport Extension Works, Qatar	300	300
Abu Dhabi International Airport Midfield Terminal Complex, UAE	2,000	6,000
Abu Dhabi International Airport Utility Works Package, UAE	150	300
Abu Dhabi International Airport Pile Caps and Associated Works, UAE	150	300
Riga International Airport , Latvia	130	130
TOTAL	7,155	13,130

Source: TAV Investment

...differentiates itself as an airport contractor… After building almost all of the airports under Tav Airports Holding's umbrella, Tav Construction gained great expertise in airport construction. Until now the company completed US$2.2bn terminal construction and airports related contracting, which corresponds to 96% of the total completed projects. Last but not the least, unlike other contractors, the company completes the projects in a shorter time period compared to many of its rivals. The company finalizes a project in 24 to 36 months, which lingers to 48 to 60 months in its competitors, which have a more diversified project backlog.

A new business: BOT of car parks in Istanbul. TAV G Carpark Company (TAV G) has been established on 14 April 2008 in order to build and operate car parks in different locations in Istanbul. As of today the company has been awarded for BOT project of 16 car parks and after construction works it will operate these 16 car parks for 30 years. The company is attending the tenders of new car parks and aims to increase the number of car parks under operation operated in the coming years. One carpark construction with 283 parking capacity was almost completed in Emniyetevler - Kagithane.

Valuation & Key Assumptions

In our base case we value Tav Construction at US$573mn, implying a US$244mn value for Akfen Holding's 42.5% stake in the company. Our fair value in the bear and bull cases are US$518mn and US$754mn, respectively.

Figure 72: Valuation results of the bear, base and bull cases

US$mn	Fair Value	Akfen Holding's Share
Bear Case	518	220
Base Case	573	244
Bull Case	754	320

Source: Is Investment

Base Scenario

Basic assumptions of our base scenario are as follows:

- As all of the contracts are US$-denominated we have run a US$ model, where we take the risk free rate as 6%, benchmarking to the 10-year Turkish Eurobond rate, equity risk premium as 5% and beta as 1x.
- Our forecast horizon ends in 2014, when all ongoing and newly added projects are completed.
- For cost of debt we have taken the company's average US$ financing cost at 7%.
- We have kept current weight of debt and weight of equity at 60% and 40%, respectively, constant throughout the modeling period.
- In order to thoroughly reflect the company's growth potential, given almost US$6bn projects (TAV Construction's share) under follow-up among which the company has quite a high chance of wining the ones in Abu Dhabi, worth almost US$3bn, we have taken terminal growth rate as 3%.
- In terminal value calculation we have used US$30mn free cash flow, which is company's average operational free cash flow of last five years.

Figure 73: WACC Assumptions

WACC Assumptions	
Risk Free Rate	6%
Equity Risk Premium	5%
Beta	1
Cost of Equity	11.00%
Cost of Debt	7%
After Tax Cost of Debt	5.6%
Weight of Equity	40%
Weight of Debt	60%
WACC	7.7%

Source: Is Investment

- Other than the ongoing projects in the current backlog, we have assumed additional revenues of US$500mn starting from 2012 until the end of the forecast horizon i.e. 2014, reflecting the company's probability to be granted other airport projects that have not been bid for yet.
- In our base case, in addition to the existing backlog we have taken only three new projects into calculation, which are quite likely to be granted to the company in the first half of 2010 and have not started to generate revenues yet, namely Kuwait International Airport Civil Works with US$300mn size, Oman Muscat International Airport Building Works MC-3 with US2,000mn in size (TAV's share is US$1,000mn) and lastly Macedonia Skopje and Ohrid Airportsconstruction and renovation works with US$140mn size.

- Accordingly our backlog assumption is US$2.1bn in 2010YE, US$791mn in 2011YE and US$1,595mn in 2012YE.
- We have taken operating expenses/sales ratio at 1.2% for 2010 and 2011. For 2012 and 2013 we kept operating expenses constant at US$16mn.
- In line with the company guidance we have assumed US$61mn capex for 2010 and US$19mn capex for 2011. While US$31mn of the total US$61mn budgeted for 2010 will be used by the company, US$30mn will be invested in the subsidiary Tav G, the car park company.

Figure 74: DCF summary of the base case

US$mn	2010E	2011E	2012E	2013E	2014E
Revenues	1,349	1,359	1,201	595	500
Gross Profit	88	148	104	58	50
Operating Expenses	-16	-16	-16	-16	-16
EBIT	72	132	88	42	34
EBITDA	83	138	87	42	34
(-) capex	61	19	0	0	0
(-) taxation	14	26	18	8	7
Free Cash Flow	8	93	69	33	27
WACC	7.7%	7.7%	7.7%	7.7%	7.7%
PV of FCF	7	80	55	25	19
Total of FCF	186				
Terminal Growth	3%				
PV of Terminal Value	349				
Net Cash	39				
Equity Value	573				
Akfen Holding's share @ 42.5% stake	244				

Source: Is Investment

Bull Scenario

We have calculated the fair value of TAV Construction as US$754mn in our bull scenario, corresponding to a US$320mn value for Akfen Holding's 42.5% stake.

Basic assumptions of our bull scenario are as follows:

- All underlying assumptions we have used in WACC calculation are same with the base scenario.
- We have not changed the terminal year free cash flow , i.e. taken it at US$30mn.
- On top of the already granted three projects, we have added four new projects to the backlog which worth US$3bn with 50% probability, i.e. we have projected US$1.5bn addition to the backlog. Average completion period of these projects is 3 years.
- Accordingly our backlog assumption is US$3.8bn in 2010YE, US$1.8bn in 2011YE and US$1,796mn in 2012YE.
- We have taken operating expenses/sales ratio at 1.2% for 2010 and 2011. For 2012 and 2013 we kept operating expenses constant at US$16mn.
- Our capex forecast in the bull case is same with the base case.

Figure 75: DCF summary of the bull scenario

US$mn	2010E	2011E	2012E	2013E	2014E
Revenues	1,782	1,932	1,609	730	500
Gross Profit	131	205	145	72	50
Operating Expenses	-16	-16	-16	-16	-16
EBIT	115	189	129	55	34
EBITDA	127	195	128	55	34
(-) capex	61	19	0	0	0
(-) taxation	23	38	26	11	7
Free Cash Flow	42	138	102	44	27
WACC	7.7%	7.7%	7.7%	7.7%	7.7%
PV of FCF	39	119	81	33	19
Total of FCF	292				
Terminal Growth	2%				
PV of Terminal Value	423				
Net Cash	39				
Equity Value	754				
Akfen Holding's share @ 42.5% stake	320				

Source: Is Investment

Bear Scenario

We have calculated the fair value of TAV Construction as US$518mn in our bear scenario, corresponding to a US$220mn value for Akfen Holding's 42.5% stake. The only difference between the base scenario and the bear scenario is the terminal growth assumption that we have lowered from 3% to 2%, which is rather conservative given US$6bn airport projects for which the company submitted bids.

Figure 76: DCF summary of the bear scenario

US$mn	2010E	2011E	2012E	2013E	2014E
Revenues	1,349	1,359	1,201	595	500
Gross Profit	88	148	104	58	50
Operating Expenses	-16	-16	-16	-16	-16
EBIT	72	132	88	42	34
EBITDA	83	138	87	42	34
(-) capex	61	19	0	0	0
(-) taxation	14	26	18	8	7
Free Cash Flow	8	93	69	33	27
WACC	7.7%	7.7%	7.7%	7.7%	7.7%
PV of FCF	7	80	55	25	19
Total of FCF	186				
Terminal Growth	2%				
PV of Terminal Value	294				
Net Cash	39				
Equity Value	518				
Akfen Holding's share @ 42.5% stake	220				

Source: Is Investment

Figure 77: Summary of Key Financials for TAV Construction

Income Statement (TL mn)	2008A	2009A	2010E	2011E	2012E	2013E	2014E
Revenues	886	1,235	2,108	2,219	2,079	1,103	979
EBITDA	72	40	130	225	154	77	66
EBIT	72	40	112	215	152	77	66
Other income (expense), net	9	2	0	0	0	0	0
Financial expenses, net	-12	-6	-2	-2	10	20	30
Minority Interests	0	0	0	0	0	0	0
Income before tax excl. Minority Interest	68	36	110	213	163	97	96
Taxation on Income	16	16	22	43	33	19	19
Net income	53	20	88	171	130	78	77
Cash Flow Statement (TL mn)							
Net Income	53	20	88	171	130	78	77
Indemnity Provisions	0	0	0	0	0	0	0
Change in Working Capital	0	-46	7	-16	-16	11	2
Cash Flow from Operations	0	-26	113	164	116	89	78
Capital Expenditure	0	28	95	31	4	0	0
Free Cash Flow	0	-54	18	133	112	89	78
Rights Issue	0	0	0	0	0	0	0
Dividends Paid	0	0	0	0	51	39	23
Other Cash Inflow (Outflow)	0	43	-209	-74	38	48	5
Change in net cash	0	45	0	121	99	99	60
Net Cash	0	-20	-20	101	200	298	359
Balance Sheet (TL mn)							
Property, plant & equipment	60	88	165	187	189	189	189
Intangibles	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0
Long-term financial assets	0	0	0	0	0	0	0
Inventories	2	1	1	1	1	0	0
Trade receivables	88	194	316	333	312	166	147
Cash & equivalents	79	168	88	171	301	379	455
Other current assets	467	379	488	417	330	193	177
Other long-term assets	75	33	57	60	56	30	26
Total assets	771	863	1,115	1,168	1,188	957	995
Long-term debt	0	0	0	0	0	0	0
Other long-term liabilities	6	0	0	0	0	0	0
Short-term debt	143	188	108	69	101	80	97
Trade payables	132	191	321	322	285	149	132
Other short-term liabilities	367	395	509	480	415	293	286
Total liabilities	649	774	938	872	801	522	515
Minority Interest	0	0	0	0	0	0	0
Total equity	122	89	177	297	388	434	480
Paid-in capital	105	105	105	105	105	105	105
Total liabilities & equity	771	863	1,115	1,168	1,188	957	995
Ratios (%)							
ROE	42%	19%	66%	72%	38%	19%	17%
Net debt/EBITDA	0%	50%	15%	-45%	-130%	-385%	-543%
Net debt/Equity	53%	22%	11%	-34%	-52%	-69%	-75%
EBITDA Margin	8%	3%	6%	10%	7%	7%	7%
EBIT Margin	8%	3%	5%	10%	7%	7%	7%
Net Margin	6%	2%	4%	8%	6%	7%	8%

Source: TAV Investment, IS Investment

VI.4. Akfen Insaat

VI.4.1. Business Review

In-house contractor… Akfen Insaat was established in 1986 in order to provide feasibility and engineering services for industrial enterprises. Thereafter the company expanded its range of services to include manufacturing, installation and assembly work. Akfen Insaat mainly carries out the construction projects within the group such as construction of the Akfen REIT's hotels and Akfen Holding's power plants. Akfen Holding is the major shareholder of the company with 99.85% stake, while the rest is shared by Akın family members.

Figure 78: Ownership Structure

Shareholder	Stake
Akfen Holding	99.85%
Hamdi Akın	0.02%
Safak Akın	0.02%
Meral Koken	0.05%
Nihal Karadayi	0.05%

Source: Company

Hedges itself with cost-plus agreements… All of the construction agreements in the current backlog are on a cost-plus basis which allows the company to reflect cost inflation directly to the clients and accordingly maintain profitability. The profit margin the company puts on the projects are 12% for the hotels and 10% for the power plants. The company subcontracts its projects with fixed price turnkey contracts, thus reflects cost overruns to subcontractors rather than to Akfen REIT and Akfen HEPPs.

The company completed US$1.6bn worth of projects since its establishment… The big-ticket completed projects of the company are composed of Ankara Esenboga Airport New Domestic-International Terminal building construction with US$74mn size, Istanbul Ataturk Airport International Terminal with a size of US$189mn and Izmir Aliaga Organized Industrial District infrastructure works worth US$88mn.

Figure 79: Some of the Completed Projects

Project	Size, US$mn
İzmir Aliağa Organized Industrial District Infrastructure Works	88
Tüpraş İzmit Refinery New Reformer and Desulphurization Unit Project	32
Atatürk Airport International Terminal BOT Project	189
Esenboğa Airport New Domestic-International Terminal	74
Girne 5 star Mercure Hotel	55
Zeytinburnu Ibis and Novotel Hotel	17
Sırma HEPP	4

Source: Akfen Construction

Current backlog stands at US$427mn... Ongoing projects make up of US$258mn of the current backlog, while new projects that were already granted to the company and that are expected to start in 2010-2014 make the remaining US$169mn. Of the total current backlog, all of the projects belong to Akfen Group companies Akfen REIT and power generation assets. While total value of power plant projects is US$291mn, total value of the hotel projects in Turkey and Russia amounts to US$136mn.

Planned projects will add up US$715mn to the backlog… There are five projects of the group companies that are planned to be started in the coming two years that have a total size of US$715mn. The biggest project is 450MW Mersin Natural Gas Cycle Plant with a size of US$352mn. The company plans to start the project in 2010 and complete in three years. The second big-ticket item in the project pipeline of the company is 550-unit residence project in the capital city Ankara. The US$120mn project is estimated to kick off in 2011 and be completed by 2013. Other than these two projects, there are one 5-star hotel project with US$105mn size, one renovation and capacity increase project that worth US$38mn and Laleli Project with a size of US$90mn.

Potential projects in the group poses an upside risk… Given the group's appetite to grow in the hotels business via REIT and energy business via new power plant investments, we think there is a huge potential for the company to expand its backlog in the future. We assumed stable US$50mn revenues starting for 2015, when all ongoing and potential projects are completed.

Figure 80: Ongoing Projects

	Installed Capacity	Total Inv., US$mn	Akfen Cons Share	Beg. Date	End. Date
Otluca HEPP	44.7	46	46	2008	2010
Karasu HEPP	24.5	38	38	2008	2010
Camlica HEPP	25.8	33	33	2008	2010
Saracbendi HEPP	24.0	42	42	2008	2010
Yuvarlakcay HEPP	3.2	4	4	2009	2011
Pirinclik HEPP	21.1	31	31	2010	2011
Yagmur HEPP	8.5	8	8	2010	2011
Doruk HEPP	28.8	13	13	2010	2011
Kavakcali HEPP	10.9	10	10	2010	2011
Demirciler HEPP	9.4	11	11	2010	2011
Tepe HEPP	13.6	10	10	2010	2011
Bursa IBIS	-	11	11	2009	2011
TOTAL	**214.5**	**258**	**258**		

Figure 81: HEPP Projects in the Pipeline

Project Name	Installed Capacity	Total Inv., US$mn	Akfen Cons Share	Beg. Date	End. Date
Dogancay HEPP	30.6	29	29	2010	2011
Catak HEPP	10.0	5	5	2011	2013
Sekiyaka HEPP	3.5	8	8	2010	2011
Gelinkaya HEPP	7.1	3	3	2010	2011
TOTAL	**51.1**	**45**	**45**		

Figure 82: Hotel Projects in the Pipeline

Project Name	Total Inv., US$mn	Akfen Cons Share	Beg. Date	End. Date
Beylikduzu IBIS	8	8	2010	2011
Istanbul Anatolia IBIS	9	9	2013	2015
Ankara IBIS	7	7	2011	2013
Istanbul Europe IBIS	10	10	2012	2014
Istanbul Kartal IBIS	6	6	2011	2012
Izmir IBIS	7	7	2012	2014
Adana IBIS	9	9	2010	2012
Ankara Novotel	16	16	2014	2015
Moscow Leningradsky	52	52	2011	2013
TOTAL	**124**	**124**		

Figure 83: Pipeline Projects

Project Name	Total Inv., US$mn	Beg. Date	End. Date
Bafra 5* Hotel and Casin	105	2011	2013
Ankara 550-unit residenc	120	2011	2013
450MW Mersin NG PP	361	2010	2012
Mersin Seaport Capacity	38	2010	2012
Laleli HEPP	90	2010	2013
TOTAL	**715**		

Figure 84: Current Backlog

Project Name	Backlog, US$mn
Hotel Projects	136
HEPP Projects	291
TOTAL	**427**

Source: Akfen Construction

Another potential project is İstanbul Salıpazarı- Karaköy Kruvaziyer Harbor (Galataport), which is probably one of the potential target projects of Akfen Holding if and when the tender commences. It is known that Privatization Administration (PA) chose a consultant company for the tender for the project, which is to be leased for a period of 49 years. The consultant company will carry out work on the latest conditions of the harbor and on preparing the specifications to be completed in the first half of 2010 as planned.

Valuation & Key Assumptions

We used DCF to value Akfen Insaat. Our DCF-driven fair value for Akfen Insaat is US$76mn. When reaching US$76mn fair value, we have also included company's 3.9% stake at Akfen Holding valued at TL82mn in 2009YE financials.

Basic assumptions of our model are as follows:

- We have run a US$-model for the company, as all contracts are US$-denominated. Hence benchmarking to 10-year Turkish Treasury Eurobond's rate we have taken risk free rate as 6%. With 5% equity risk premium, 1x beta and 7% cost of debt WACC comes to 9.9%.

- As the company will complete all of the projects at the current backlog by 2015 our forecast horizon is six years between 2010 and 2015.

- As Akfen Insaat only carries out the construction projects of the group, other than the planned hotel projects of the REIT, the hydroelectric power plant (HEPP) projects and residential project in Ankara we did not include any prospective project into our valuation. Instead we have assumed a terminal revenue of US$50mn yielding a terminal cash flow of US$5mn beyond 2015.

- Our valuation includes ongoing hotel and HEPP projects, as well as the ones whose contracts have been already signed. While the ongoing ones worth US$154mn, the ones that will start between 2010 and 2013 add up to US$291mn. Other than the projects mentioned above, we have incorporated the projects under development, namely a 5-star hotel in Cyprus, 550-unit residential project in Ankara and Mersin Seaport capacity increase investments into our valuations. These prospective projects total US$263mn.

- The company's current backlog stands at US$445mn, which increases to US$679mn with the addition of the aforementioned three planned projects. Our 2010YE and 2011YE backlog estimates for the company is US$515mn and US$132mn, respectively.

- We did not assume any capex and WCR for the company. Due to accumulated carry forward losses, we did not incorporate any taxation.

Figure 85: WACC Assumptions

WACC Assumptions	
Risk Free Rate	6%
Equity Risk Premium	5%
Beta	1
Cost of Equity	11.0%
Cost of Debt	7%
Weight Equity	79%
Weight of Debt	21%
WACC	9.9%

Source: Is Investment

Figure 86: DCF Summary of Akfen Insaat

US$mn	2010E	2011E	2012E	2013E	2014E	2015E
Revenues	168	211	163	161	84	59
Gross Profit	25	20	15	15	8	6
Operating Expenses	13	9	7	7	7	7
EBITDA	12	11	8	8	1	-1
(-) capex	0	0	0	0	0	0
(-) taxation	0	0	0	0	0	0
Free Cash Flow	12	11	8	8	1	-1
WACC	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%
PV of FCF	11	9	6	5	0	-1
Total of FCF	31					
Terminal Growth	0%					
Terminal Value	29					
Net Cash, 2009YE	16					
LT Financial Investments	0					
Equity Value	76					

Source: Is Investment

Figure 87: Summary of the Key Financials for Akfen Insaat

Income Statement (TLmn)	2008A	2009A	2010E	2011E	2012E	2013E	2014E
Revenues	131	149	263	345	282	298	165
EBITDA	2	-7	18	17	14	15	3
EBIT	2	-7	18	17	14	15	3
Other income (expense), net	7	2	0	0	0	0	0
Financial expenses, net	-23	-13	-7	-10	-9	-8	-8
Minority Interests	0	0	0	0	0	0	0
Income before tax excl. Minority Interest	-14	-17	12	7	5	7	-5
Taxation on Income	1	4	0	0	0	0	0
Net income	-13	-13	12	7	5	7	-5
Cash Flow Statement (TL mn)							
Net Income	-13	-13	12	7	5	7	-5
Indemnity Provisions	1	1	1	1	1	1	2
Change in Working Capital	-	10	15	25	-14	3	-29
Cash Flow from Operations	-	-2	28	34	-7	12	-33
Capital Expenditure	-	0	0	0	0	0	0
Free Cash Flow	-	-2	28	34	-7	12	-33
Rights Issue	-	0.0	0	0	0	0	0
Dividends Paid	-	0	0	0	0	0	0
Other Cash Inflow (Outflow)	-	77	-58	-24	17	-13	41
Change in net cash	-	75	-30	9	10	-1	8
Net Cash	-	-58	-88	-79	-69	-70	-62
Balance Sheet (TL mn)							
Property, plant & equipment	6	6	5	5	4	3	3
Intangibles	1	1	1	1	1	1	1
Goodwill	0	0	0	0	0	0	0
Long-term financial assets	200	192	111	116	122	128	134
Inventories	12	4	6	8	7	7	4
Trade receivables	37	42	74	97	80	84	46
Cash & equivalents	1	2	3	4	4	4	4
Other current assets	71	52	154	162	147	151	120
Other long-term assets	149	98	122	139	126	130	104
Total assets	476	395	476	532	490	508	416
Long-term debt	8	31	25	19	13	13	13
Other long-term liabilities	1	14	0	0	0	0	0
Short-term debt	126	28	66	64	60	61	53
Trade payables	72	79	128	179	146	154	85
Other short-term liabilities	30	17	17	24	20	21	12
Total liabilities	237	169	237	286	239	249	163
Minority Interest	0	0	0	0	0	0	0
Total equity	240	226	239	246	251	259	253
Paid-in capital	157	157	157	157	157	157	157
Total liabilities & equity	476	395	476	532	490	508	416
Ratios (%)							
ROE	-7%	-6%	5%	3%	2%	3%	-2%
Net debt/Equity	55%	25%	37%	32%	27%	27%	24%
EBITDA Margin	2%	-5%	7%	5%	5%	5%	2%
EBIT Margin	2%	-5%	7%	5%	5%	5%	2%
Net Margin	-10%	-9%	5%	2%	2%	2%	-3%

Source: Akfen Construction, IS Investment

VI.5. Hydroelectric Power Plants

In line with this business strategy, Akfen is seeking an active role in energy investments, including electricity generation and distribution and trading in Turkey. Akfen Holding currently has two main portfolios for its energy investments: (i) Akfen HEPP , and (ii) Akfen Energy Investment Holding in which Akfen Holding and Hamdi Akin have 69.5% and 29.25% stake respectively. Akfen Holding targets to expand its energy business going forward through acquisitions of companies with production licenses, as well as applying for brand new generation licenses through long standing tenders.

AKFEN HEPP

Akfen HEPP was established in 2007 to operate hydroelectric power plant projects. Akfen Holding's hydro activities are grouped under three entities: AkfenHEPP and Power Generation Investments Inc. (HEPP-1), Akfen Hydroelectric Plant Investment Inc. (HEPP -2), and Akfen Energy Sources Investment and Trade Inc. (HEPP-3). Akfen Holding obtained licenses for 20 of the 23 projects which are based on a 49 year concession period. The hydroelectric power plant projects are evenly distributed throughout Turkey in terms of their geographical location. The licensing process for the Laleli HEPP, the only dam–type HEPP, is at an advanced stage while the remaining two projects are at the tender stage. It is important to note that the eligibility decision for the Laleli HEPP was obtained from the EMRA.

All hydroelectric power plant projects except Laleli Dam HEPP qualifies as Renewable Energy Source

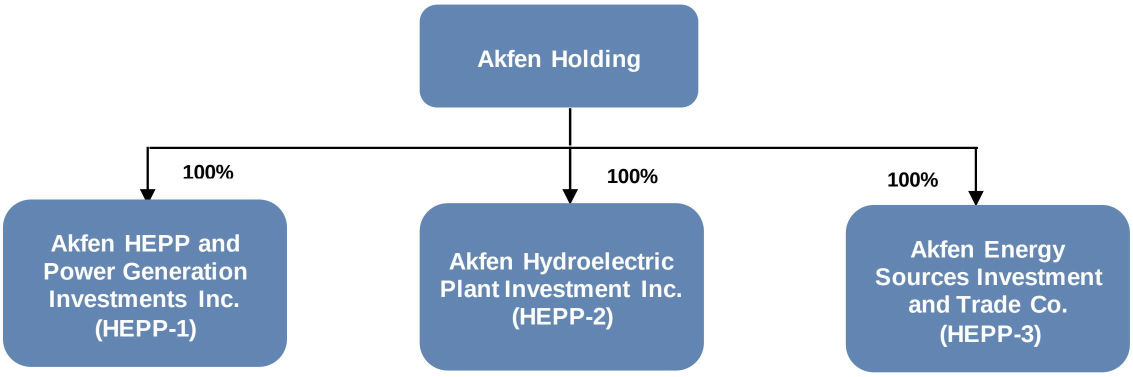
In order to promote renewable energy investments, the government enacted a Renewable Energy Law, which provides a purchasing guarantee for 10 years at a tariff (currently 5-5.5 € cent/kWh) to be determined by EMRA.

According to a new incentive package to be approved in Parliament, the guaranteed purchase prices for electricity generated through renewable energy resources will be raised to 7 € cent/kWh for hydroelectric power, again for 10 years. Additional incentives will be brought in for investments which employ domestically procured machinery, elevating the government purchasing guarantee to 8.8 € cent/kWh for investments in hydroelectric power. The draft law was expected to be ratified in Parliament before the parliamentary recess in 2009, but was postponed to a later date.

Significantly, all of Akfen's hydroelectric power plant projects, with the exception of the Laleli Dam HEPP, qualify as Renewable Energy resources, where there is a purchase guarantee of 5.5 € cent/kWh for 10 years.

The company gave a mandate to Deutsche Bank for the sale of shares at Akfen HEPP and Power Generation Investments Inc. (HEPP-1), Akfen Hydroelectric Plant Investment Inc. (HEPP-2), and Akfen Energy Sources Production and Trade Inc. (HEPP-3). The company receives offers which are under consideration.

Figure 88: Akfen HEPP Shareholding Structure



Source: Company

AkfenHEPP and Power Generation Investments Inc. (HEPP-1)

HEPP-1 include 11 projects with a total installed capacity of 132MW under three different companies; Beyobasi, Ideal and Camlica. The Otluca HEPP, Sirma HEPP, Yuvarlakcay HEPP, Sekiyaka HEPP investments are under Beyobasi, while the Karasu-1 HEPP, Karasu-2 HEPP, Karasu-4.2 HEPP, Karasu-4.3 HEPP and Karasu-5 HEPP investments are under Ideal. Finally, Camlica III HEPP and Saracbendi HEPP investments are under Camlica. The overall cost of the investments is expected to total €224mn. Financing for 11 of these projects has been arranged through €166.45mn in limited recource, which is valid during the construction period and up to the repayment of the first 2 installments. The company already injected the equity portion of the investment.

Only one of the 11 renewable type HEPP 1 projects is currently operational while 9 projects are under construction. Akfen Holding plans for all the HEPP projects under HEPP1, apart from the Yuvarlakcay HEPP and Sekiyaka HEPP, to be completed by November 2010. However, for the sake of adopting a conservative approach, we assumed an additional two months' delay, and expect these investments to become operational by the beginning of 2011. Yuvarlakcay HEPP will be operational by mid-2011, while Sekiyaka HEPP is due to start production in the last quarter of 2011.

Akfen Hydroelectric Plant Investment Inc. (HEPP-2)

Term sheet for HEPP-2 has been signed in December'09.

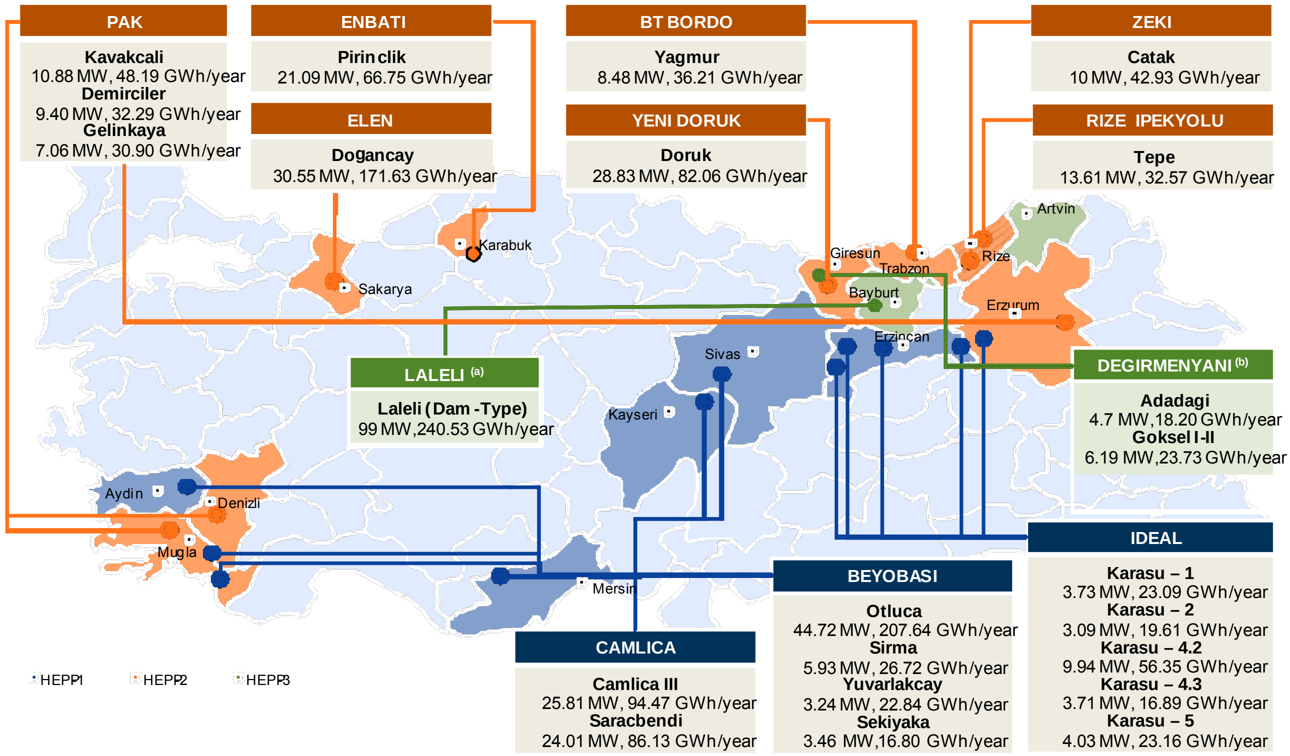
HEPP-2 includes 9 renewable type projects with a total installed capacity of 140MW under seven different companies; Elen, Pak, Enbati, BT Bordo, Yenidoruk, Zeki and Rize Ipekyolu. The total investment cost of HEPP-2 is expected to be around €184mn. The term sheet for HEPP-2 was signed in December 2009 with a consortium of Turkish banks (TSKB, Yapi Kredi, Denizbank and Iş Bank), and drawdowns are expected to be started shortly. All HEPP-2 projects, with the exception of the Catak HEPP under Zeki, are projected to be completed by the end of 2011; the Catak HEPP is planned to be completed in late 2013.

Akfen Energy Sources Investment and Trade Inc. (HEPP-3)

Laleli Dam HEPP will have the ability to sell at peak price.

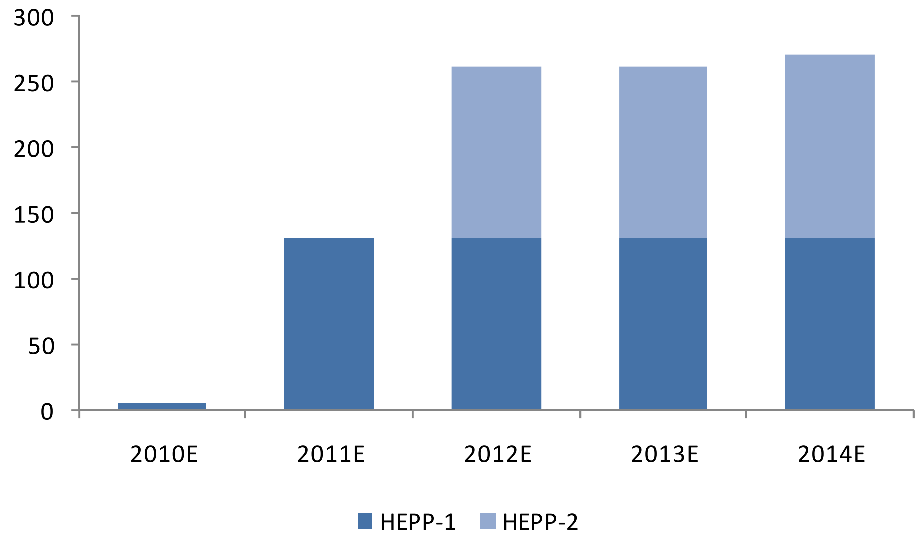
HEPP-3 consists of the dam-type Laleli HEPP with an installed capacity of 99MW and the potential Adadagi HEPP which the license application process is ongoing and the Goksel I-II HEPP in which the tender process is ongoing with a total installed capacity of 11MW. The Laleli HEPP project license is pending approval from EMRA, for which the eligibility decision was obtained from the EMRA. According to feasibility studies, the Laleli Dam HEPP is expected to generate 240.5 GWh of electricity per annum. Total cost for the Laleli Dam HEPP is estimated as €140mn, while the cost of Adadagi and Goksel I -II HEPP is given as €30mn. It is important to consider that the Laleli Dam HEPP will have the privilege of selling electricity to the market at peak prices, as it is a dam investment. Based on company guidance, it is projected to generate €16mn of revenue in 2013 and €27mn of revenue once it is fully operational in 2014. Since the company has not yet obtained the licenses for these projects, we did not include HEPP-3 in our valuation for Akfen Holding's energy investments.

Figure 89: Hydroelectric Power Plant Projects



Source: Company

Figure 90: Akfen HEPP's Installed Capacity (MW)

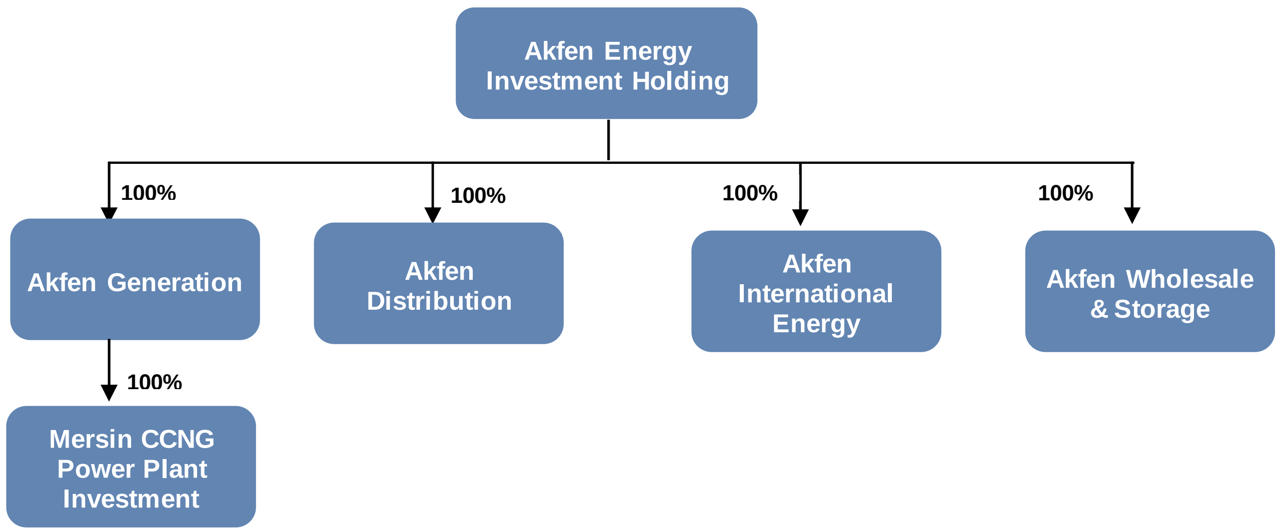


Source: Company

Akfen Energy Investment Holding

Akfen Holding established Akfen Energy Investment Holding as an umbrella company for its future greenfield investments in the energy sector. These include generation from natural gas and coal, distribution, storage and trading. Akfen Holding holds a 69.5% stake in Akfen Energy Investment Holding.

Figure 91: Akfen Energy Investment Holding Structure



Source: Company

Akfen Generation Company

Mersin CCNG Power Plant investment is expected to be operational by 2013.

Akfen Holding plans to build a natural gas fired power plant with an installed capacity of 450MW in Mersin, being both near an industrial region and the sea. The land is also located 4.5km east of Mersin harbor. The license application for the power plant was submitted to EMRA, while the Environmental Impact Assessment report has already been obtained. The plant is expected to enter operation by 2013. However, since we believe that it will take at least couple of years to see the project through, we only added the valuation of Mersin Combined Cycle Power Plant in our bull scenario. The land has a footprint to expand the capacity to 800 MW.

Akfen Distribution Company

The company might be interest in the privatization tender of Toroslar electricity distribution region.

The company may be interested in the privatization tender of the Toroslar electricity distribution grid, since Akfen Group will have activities around these region; for example, the holding operates Mersin International Port and has energy generation investment plans in Mersin (Mersin combined cycle power plant and Otluca HEPP under HEPP-1). The Toroslar electricity distribution grid covers Adana, Gaziantep, Mersin, Osmaniye and Kilis with a total annual consumption of 13.9mn kWh. During the previous electricity distribution tenders, the average transfer price per subscriber was US$329, pointing to a concession fee of around US$875mn for the region. The privatization tender for the Toroslar electricity distribution grid is expected to be held by mid 2010.

Valuation & Key Assumptions

Valuation of AkfenHEPP and Power Generation Investments Inc. (HEPP-1)

We have listed our key assumptions while conducting our valuation model for Akfen-HEPP and Power Generation Investments Inc. (HEPP-1) as below:

- **Forecast period**: Our forecast period is 11 years from 2010 to 2021.

- **Electricity Generation**: Only the Sirma HEPP is currently operational out of the 11 renewable type HEPP projects while 9 are under construction. The Sirma HEPP has been in operation since May 2009 and generated approximately 7 GWh of electricity in 2009. The company aims to complete all HEPP projects, with the exception of Yuvarlak-cay and Sekiyaka, by November 2010. For the sake of adopting a conservative approach, we assumed a two month delay and expect these projects to be operational by the beginning of 2011. The Yuvarlakcay HEPP is expected to be in operation by mid-2011 with the Sekiyaka HEPP is expected to be in operation during the last quarter of 2011. Accordingly, we forecast that the company will generate 24 GWh of electricity through the Sirma HEPP in 2010. Later, our forecasted total generation will increase to 570 GWh in 2011 and 594 GWh in 2012 through the contribution of the completed investments. We kept the electricity generation constant for the rest of forecasted period.

Figure 92: Company's Electricity Generation Estimates (GWh)

Company Names	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Beyobasi	24	250	274	274	274	274	274	274	274	274	274	274
Ideal	0	139	139	139	139	139	139	139	139	139	139	139
Camlica	0	181	181	181	181	181	181	181	181	181	181	181
Total	**24**	**570**	**594**	**594**	**594**	**594**	**594**	**594**	**594**	**594**	**594**	**594**

Source: IS Investment

- **Capacity & Investments:** We have included the 11 renewable type HEPP projects in our capacity projections for HEPP-1. Accordingly, Akfen HEPP and Power Generation Investments Inc.'s capacity will increase to 132MW from the current 6MW in 2010. The total cost of the 132MW investment is estimated as €224mn, with 25% to be financed through equity, and the remaining 75% (€166.45 mn) with a 9 year loan under the guarantee of Akfen Construction Tourism and Trade Inc. The cost of the debt is given as the 6 month Euribor rate, plus 650 bps. The company hedges 75% of the total cost of the debt until 2015; accordingly the cost of the hedged portion of the debt is 275 bps + 650 bps. When we are calculating the cost of debt, we took the weighted average of both figures. The equity portion is fully injected into the current projects and is used as capex.

- **Electricity Prices:** We took into account the changes in our natural gas price estimates and exchange rates when calculating TEDAS prices. Tariffs for all types of customers are set as a function of the TEDAS' tariff. Note that Akfen Group plans to sell all of the electricity it generates from HEPP projects in the balancing and settlement market.

Figure 93: Electricity Price Estimates

Electricity Prices	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
TEDAS Price (TLkr/kWh)	19.1	21.3	22.9	24.6	26.0	27.2	28.4	29.7	30.7	32.1	33.6	35.1
TEDAS Price (€ cent/kWh)	8.8	9.5	9.7	9.8	9.9	10.0	10.1	10.2	10.2	10.2	10.2	10.2
Previous Day Planned Prices (TLkr/kWh)	11.5	16.0	17.2	18.4	19.5	20.4	21.3	22.3	23.1	24.1	25.2	26.3
Previous Day Planned Prices (€ cent/kWh)	5.3	7.1	7.3	7.4	7.4	7.5	7.6	7.6	7.6	7.6	7.6	7.6
Balancing Power Market Prices (TLkr/kWh)	12.6	17.6	18.9	20.3	21.4	22.4	23.5	24.5	25.4	26.5	27.7	28.9
Balancing Power Market Price (€ cent/kWh)	5.8	7.9	8.0	8.1	8.2	8.3	8.3	8.4	8.4	8.4	8.4	8.4

Source: IS Investment

- **Operating Expenses:** We projected €0.01/kWh in operating expenses throughout our forecasted period.

- **Carbon credits:** We did not include any income from carbon credits in our model.

- **Tax rate:** We have not changed the current corporate tax rate throughout the forecast period and assumed that it would be constant at 20%.

- **WACC assumptions:** We assumed a risk free rate of 5%, benchmarking to 2010 Turkish Treasury Eurobonds, an equity risk premium of 7%, a beta of 1 and a terminal growth rate of 0%. We have changed our WACC calculations based on the changes in the debt-to-equity ratio and the Euribor rate.

Figure 94: DCF Summary of HEPP-1

Eur mn	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenue	1.4	44.8	47.4	48.1	48.6	49.0	49.5	49.9	49.9	49.9	49.9	49.9
OP-EX	0.4	5.9	6.4	6.4	6.7	6.8	6.8	6.9	6.9	6.9	6.9	6.9
Additional Headquarter Expense	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
EBITDA	0.2	38.0	40.1	40.7	41.0	41.3	41.8	42.1	42.0	42.1	42.1	42.1
EBITDA Margin	12%	85%	85%	85%	84%	84%	84%	84%	84%	84%	84%	84%
Depreciation	0.9	17.4	17.2	16.3	15.5	14.9	11.3	10.8	10.4	9.9	9.5	9.1
EBIT	-0.7	20.6	22.9	24.4	25.5	26.3	30.4	31.3	31.7	32.1	32.6	33.0
(-)Tax on EBIT	0.0	4.1	4.6	4.9	5.1	5.3	6.1	6.3	6.3	6.4	6.5	6.6
(-) Capex	108.4	12.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Working Capital	0.1	2.2	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5
(-) change in WC	0.1	2.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-108.3	18.9	35.4	35.8	35.9	36.0	35.6	35.8	35.7	35.6	35.6	35.5
WACC	8.7%	9.5%	9.8%	10.0%	10.2%	10.5%	11.0%	11.3%	11.6%	12.0%	12.0%	12.0%
Discount Factor	1.09	1.19	1.31	1.44	1.58	1.75	1.94	2.16	2.41	2.70	3.03	3.39
Discounted FCF	-99.6	15.8	27.1	24.9	22.6	20.6	18.3	16.6	14.8	13.2	11.7	10.5
Sum of DCF	97											
Terminal Growth	0											
Terminal Value	87											
Total	184											
Net Debt	-46											
Equity Value	138											

Source: IS Investment

Figure 95: WACC Assumptions

WACC Calculation	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Risk free rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt	55%	52%	48%	45%	40%	35%	29%	21%	12%	0%	0%	0%
Equity	45%	48%	52%	55%	60%	65%	71%	79%	88%	100%	100%	100%
Cost of debt	7.5%	9.0%	9.2%	9.4%	9.5%	9.5%	10.7%	10.8%	10.9%	11.1%	11.1%	11.2%
After tax cost of debt	6.0%	7.2%	7.4%	7.5%	7.6%	7.6%	8.6%	8.7%	8.8%	8.8%	8.9%	8.9%
Cost of equity	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
WACC	8.7%	9.5%	9.8%	10.0%	10.2%	10.5%	11.0%	11.3%	11.6%	12.0%	12.0%	12.0%

Source: IS Investment

Akfen Hydroelectric Plant Investment Inc. (HEPP-2)

We have listed our key assumptions while conducting our valuation model for Akfen Hydroelectric Plant Investment Inc. (HEPP-2) as below:

- **Forecast period**: Our forecast period covers an 11 year period from 2010 to 2021.

- **Electricity Generation**: The 9 renewable type HEPP projects which will be under construction before the end of 1H'10, except for the Catak HEPP project under Zeki, are expected to be completed by the end of 2011. The Catak HEPP project is planned to be completed in late 2013. Again, for the sake of adopting a conservative approach, we have assumed that all projects with the exception of Catak will be in operation by 2012, and that Catak will be operational by 2014. As such, we forecast that the company will generate 501GWh of electricity in 2012, later rising to 544GWh in 2014 through the contribution of the Catak HEPP project.

Figure 96: Company's Electricity Generation Estimates (GWh)

Company Names	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Elen	0	0	172	172	172	172	172	172	172	172	172	172
Enbati	0	0	67	67	67	67	67	67	67	67	67	67
BT Bordo	0	0	36	36	36	36	36	36	36	36	36	36
Yenidoruk	0	0	82	82	82	82	82	82	82	82	82	82
Zeki	0	0	0	0	43	43	43	43	43	43	43	43
Rize İpekyolu	0	0	33	33	33	33	33	33	33	33	33	33
Pak	0	0	111	111	111	111	111	111	111	111	111	111
TOTAL	0	0	501	501	544	544	544	544	544	544	544	544

Source: IS Investment

- **Capacity & Investments:** We have included all 9 renewable type HEPP projects in our capacity projections for HEPP-2. Accordingly, the Akfen Hydroelectric Power Plant Investment Inc. will have a capacity of 140MW. The total cost of the investment is estimated as €184 mn. While 25% of the investment will be financed through equity, the remaining 75% (€138 mn) will be financed with a 9 year loan under Akfen Construction Tourism and Trade Inc guarantee, a total cost of debt being equal to the 6 month Euribor rate plus 550 bps. The Term Sheet was signed in December 2009 with a consortium of Turkish banks (TSKB, Yapi Kredi, Denizbank, and Iş Bank) and drawdowns will be started shortly. A total of €6.6 mn of the €46 mn equity portion has been injected into the current projects and is used as capex.

- Electricity Prices: We took into account the changes in our natural gas price estimates and exchange rates when calculating TEDAS prices. Tariffs for all types of customers are set as a function of the TEDAS' tariff. Note that in all of Akfen Group's HEPP projects, the electricity generation is planned to be sold in the balancing and settlement market.

Figure 97: Electricity Price Estimates

Electricity Prices	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
TEDAS Price (TLkr/kWh)	19.1	21.3	22.9	24.6	26.0	27.2	28.4	29.7	30.7	32.1	33.6	35.1
TEDAS Price (€ cent/kWh)	8.8	9.5	9.7	9.8	9.9	10.0	10.1	10.2	10.2	10.2	10.2	10.2
Previous Day Planned Prices (TLkr/kWh)	11.5	16.0	17.2	18.4	19.5	20.4	21.3	22.3	23.1	24.1	25.2	26.3
Previous Day Planned Prices (€ cent/kWh)	5.3	7.1	7.3	7.4	7.4	7.5	7.6	7.6	7.6	7.6	7.6	7.6
Balancing Power Market Prices (TLkr/kWh)	12.6	17.6	18.9	20.3	21.4	22.4	23.5	24.5	25.4	26.5	27.7	28.9
Balancing Power Market Price (€ cent/kWh)	5.8	7.9	8.0	8.1	8.2	8.3	8.3	8.4	8.4	8.4	8.4	8.4

Source: IS Investment

- **Operating Expenses:** We have projected €0.01/kWh operating expenses throughout our forecasted period.

- **Carbon Credits:** We did not include any income from carbon credits in our valuation.

- **Tax rate:** We have not changed the current corporate tax rate throughout the forecast period and taken it constant at 20%.

- **WACC assumptions:** We have taken risk free rate at 5%, benchmarking to 2010 Turkish Treasury Eurobonds, equity risk premium as 7%, beta as 1 and terminal growth rate as 0%. We have changed our WACC calculation based on the changes of debt-to-equity ratio and Euribor.

Figure 98: DCF Summary HEPP-2

Eur mn	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenue	0	0	40	41	45	45	45	46	46	46	46	46
OP-EX	2	2	5	5	6	6	6	6	6	6	6	6
EBITDA	-2	-2	35	35	39	39	40	40	40	40	40	40
EBITDA Margin	0	0	87%	87%	87%	87%	87%	87%	87%	87%	87%	87%
Depreciation	0	0	14	13	13	13	12	9	9	9	8	8
EBIT	-2	-2	21	22	26	26	27	31	31	31	32	32
(-)Tax on EBIT	0	0	4	4	5	5	5	6	6	6	6	6
(-) Capex	77	97	2	1	0	0	0	0	0	0	0	0
Net Working Capital	0	0	2	2	2	2	2	2	2	2	2	2
(-) change in WC	0	0	2	0	0	0	0	0	0	0	0	0
FCF (€ mn)	-79	-99	26	30	34	34	34	34	34	34	34	33
WACC	8%	9%	9%	9%	10%	10%	10%	10%	11%	11%	11%	12%
Discount Factor	1.08	1.17	1.28	1.39	1.53	1.68	1.85	2.04	2.26	2.51	2.80	3.14
Discounted FCF	-73	-84	20	21	22	20	18	17	15	13	12	11
Sum of DCF	12											
Terminal Growth	0%											
Terminal Value	89											
Equity Value	101											

Source: IS Investment

Figure 99: WACC Assumptions

WACC Calculation	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Risk free rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt	58%	58%	58%	55%	51%	48%	43%	38%	31%	23%	13%	0%
Equity	42%	42%	42%	45%	49%	52%	57%	62%	69%	77%	87%	100%
Cost of debt	6%	7%	8%	9%	9%	9%	10%	10%	10%	10%	10%	10%
After tax cost of debt	5.2%	5.9%	6.5%	6.9%	7.3%	7.6%	7.8%	7.9%	8.0%	8.0%	8.1%	8.1%
Cost of equity	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
WACC	8.1%	8.5%	8.8%	9.2%	9.6%	9.9%	10.2%	10.4%	10.7%	11.1%	11.5%	12.0%

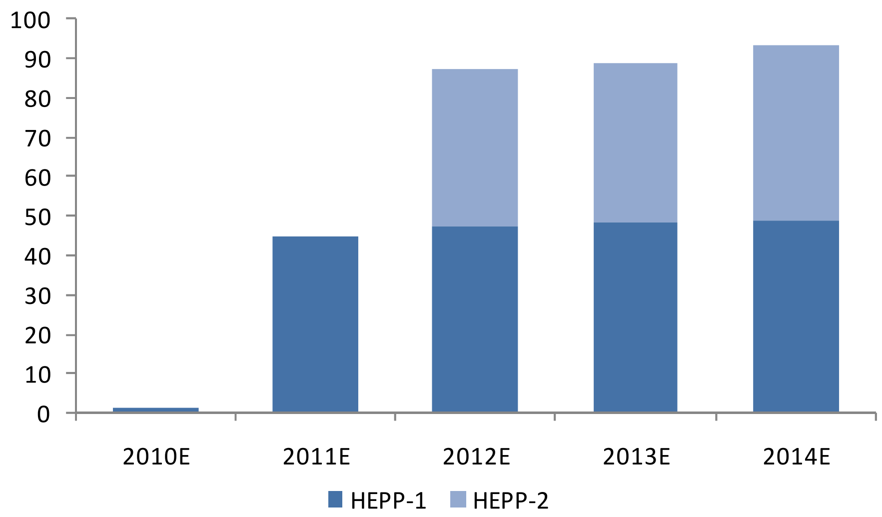
Source: IS Investment

Revenue and EBITDA Analysis of HEPP-1 & HEPP-2

Out of the 11 renewable type HEPP projects only Sırma HEPP is operational, while the remaining 9 projects are under construction. All HEPP projects are expected to become operational by 2011. Thus, we assume that the company will generate relatively low revenues and EBITDA in 2010, but then its revenue and EBITDA will increase to €44mn and €38mn in 2011, respectively.

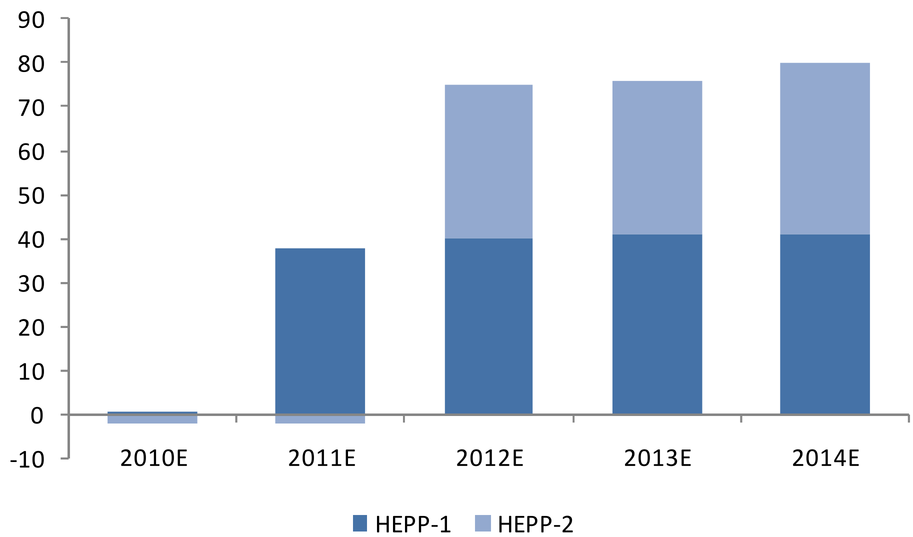
All HEPP-2 projects except Catak HEPP under Zeki are projected to be completed by the end of 2011. Catak HEPP is planned to be completed in late 2013. Accordingly, we calculate that the HEPP-2 will generate negative EBITDA figures both in 2010 and in 2011. However, we assume that the company will announce a revenue of €40mn and a EBITDA of €35mn in 2012.

Figure 100: Revenue Estimates for HEPP-1 and HEPP-2 (EURmn)



Source: IS Investment

Figure 101: EBITDA Estimates for HEPP-1 and HEPP-2 (EURmn)



Source: IS Investment

Sensitivity Analysis for HEPP-1 and HEPP-2

HEPP-1 and HEPP-2 are very sensitive to the changes in electricity prices. Therefore, companies' operational performance and hence valuation mostly depends on electricity price assumptions. Thus, we have conducted a sensitivity analysis to show how the Company reacts to the changes in the electricity prices.

We have also run a DCF analysis to demonstrate the impact of the various discount rates on the valuation.

Figure 102: Sensitivity Analysis for HEPP-1 and HEPP-2

US$ mn	Electricity Tariffs (-5%)	Base Case	Electricity Tariffs (+5%)
WACC (-1%)	350	390	429
Base Case	287	322	358
WACC (+1%)	233	267	299

Source:IS Investment

Scenario Analysis

We have employed two scenarios, namely bear scenario and bull scenario for HEPP-1 and HEPP-2. The bear scenario assumes that all of the companies will produce 10% less than it was assumed in the base scenario throughout the whole operation life. On the other hand, in the bull scenario, we used Deloitte's 2010-2015 Turkish Electricity Market Price Forecasting Report which was prepared for Akfen Holding, which suggest higher electricity prices compared to our base scenario.

Figure 103: Deloitte's Electricity Price estimates vs IS Investment's

Electricity Prices	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Deloitte's Balancing Power Market Prices (€ cent/kWh)	7.44	7.82	8.08	8.44	8.58	8.73	9.04	9.31	9.44	9.50	9.75	9.93
IS Investment's Balancing Power Market Price (€ cent/kWh)	5.83	7.86	7.98	8.10	8.19	8.25	8.34	8.41	8.41	8.41	8.41	8.41

Source:IS Investment

Figure 104: Scenario Analysis* (US$mn)

	Bear	Base	Bull
HEPP-1	147	186	226
HEPP-2	105	137	173
HEPP-3	0	0	0
Mersin CCNG	0	0	214
TOTAL	**252**	**322**	**613**

Source:IS Investment
** Akfen Holding owns 70% of Mersin CCNG. Therefore, only 70% of the equity value of the investment has been included.*

Figure 105: Summary of Key Financials for HEPP-1 & HEPP-2

Income Statement (TL mn)	2008A*	2009A*	2010E	2011E	2012E	2013E	2014E
Revenues	0	1	3	100	207	222	244
EBITDA	(3)	(2)	(4)	81	177	190	209
Depreciation & Amortisation	1	1	3	40	73	74	76
EBIT	(4)	(4)	(6)	41	104	116	133
Other income (expense), net	(2)	0	0	0	0	0	0
Financial expenses, net	5	(2)	1	(47)	(85)	(67)	(53)
Minority Interests	0	(0)	0	0	(0)	(1)	(2)
Income before tax	(0)	(6)	(5)	(6)	20	49	81
Taxation on Income	(1)	1	(1)	(1)	4	10	16
Net income	(1)	(4)	(4)	(5)	16	39	65
Cash Flow Statement (TL mn)							
Net Income	(1)	(4)	(4)	(5)	16	39	65
Depreciation & Amortisation	1	1	1	1	1	1	1
Indemnity Provisions	0	0	0	0	0	0	0
Change in Working Capital	n.a	0	(23)	11	4	2	(1)
Cash Flow from Operations	n.a	(3)	(25)	8	21	43	65
Capital Expenditure	n.a	123	354	186	(25)	(29)	(31)
Free Cash Flow	n.a	(125)	(379)	(178)	46	71	96
Rights Issue	0	0	0	0	0	0	0
Dividends Paid	0	0	0	0	0	0	0
Other Cash Inflow (Outflow)	n.a	18	58	31	31	51	51
Change in net cash	n.a	(108)	(322)	(147)	77	122	146
Net Cash	8	(99)	(421)	(568)	(491)	(369)	(223)
Balance Sheet (TL mn)							
Tangible Fixed Assets	89	214	567	713	615	513	406
Other Long Term Assets	0	0	0	0	0	0	0
Intangibles	66	62	61	60	59	57	56
Goodwill	0	0	0	0	0	0	0
Long-term financial assets	0	0	0	0	0	0	0
Inventories	0	0	0	0	0	0	0
Trade receivables	9	32	45	18	17	18	20
Cash & equivalents	8	16	237	70	143	215	299
Other current assets	0	37	21	3	0	0	0
Total assets	173	362	932	864	834	804	781
Long-term debt	0	111	618	597	590	500	434
Other long-term liabilities	14	11	11	11	11	11	11
Short-term debt	0	4	40	41	44	85	88
Trade payables	3	26	17	1	4	7	8
Other short-term liabilities	0	3	48	24	0	0	0
Total liabilities	28	164	738	675	649	603	541
Minority Interest	0	1	0	0	0	1	1
Total equity	145	198	194	190	185	201	240
Paid-in capital	148	205	205	205	205	205	205
Total liabilities & equity	173	362	932	864	834	804	781
Ratios							
ROE (%)	-0.7	-2.6	-2.1	-2.5	8.5	20.3	29.3
ROIC (%)	-1.9	-1.3	-1.1	4.5	11.3	14.6	20.2
Invested Capital	161	282	656	790	687	581	475
Net debt/EBITDA (x)	n.m	n.m	n.m	n.m	2.8	1.9	1.1
Net debt/Equity (%)	-5.8	50.0	217.3	299.8	265.8	183.7	92.8
Capex/Sales (%)	n.m	n.m	n.m	186.2	-12.1	-12.9	-12.8
Capex/Depreciation (x)		84.4	243.6	128.3	-17.3	-19.7	-21.4
EBITDA Margin	n.m	-212.9	-124.1	80.4	85.6	85.6	85.8
EBIT Margin	n.m	-361.7	-208.3	40.9	50.4	52.2	54.8
Net Margin	n.m	-448.5	-135.1	-4.8	7.7	17.6	26.5

Source: IS Investment

VI.6.Valuation of Mersin CCNG

We have listed our key assumptions in conducting our valuation model for Mersin Combined Cycle Power Plant Investment as below:

- **Forecast period**: Our forecast period is 11 years from 2010 to 2021

- **Electricity Generation**: Although the plant has the technical capacity to operate 8,500hrs p.a., we expect the plant to operate at an average of 6,800 hrs p.a. Thus, we expect Mersin CCNG to generate 2,958 GWh of electricity once it becomes operational in 2013. We maintained our generation assumption constant throughout our forecasted period.

- **Customer Breakdown:** In line with the liberalization of the electricity market and its favorable configuration as a natural gas fired power plant, we believe the company will place greater importance on bilateral agreements. We assume the company will sell 50% of its total generation to its customers through bilateral agreements, 30% through loading orders and the remaining 20% to the market at system marginal prices.

Figure 106: Customer Breakdown

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Bilateral Agreement	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Sales from Loading Prices	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Sales from SDF	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%

Source:IS Investment

-Capacity & Investments: The total installed capacity is expected to be 450MW. The investment period will be 2 1/2 years, including preparatory phase. There is a possibility that this will be increased to 800MW or more, depending on the equipment chosen. We have only used effective capacity (435 MW) in our valuation model. The total cost of the investment is expected to be €276 mn. While 30% of the investment will be finance via equity, 70% will be financed with a 9 year maturity loan.

- **Electricity Prices:** We took into account changes in our natural gas price estimates and exchange rates when calculating TEDAS prices. Tariffs for all customer types are set as a function of the TEDAS' tariff.

Figure 107: Electricity and Natural Gas Price Estimates

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
TEDAS Prices (TLkr/kWh)	19.1	21.3	22.9	24.6	26.0	27.2	28.4	29.7	30.7	32.1	33.6	35.1
TEDAS Prices (€ cent/kWh)	8.8	9.5	9.7	9.8	9.9	10.0	10.1	10.2	10.2	10.2	10.2	10.2
Load Prices (TLkr/kWh)	22.2	23.4	25.2	27.0	28.5	29.9	31.3	32.7	33.8	35.3	36.9	38.6
Load Prices (€ cent/kWh)	10.25	10.49	10.64	10.80	10.92	11.00	11.13	11.21	11.21	11.21	11.21	11.21
Balancing Pow er Market Price	12.61	17.57	18.92	20.27	21.41	22.42	23.47	24.51	25.36	26.51	27.70	28.94
Balancing Pow er Market Price	5.83	7.86	7.98	8.10	8.19	8.25	8.34	8.41	8.41	8.41	8.41	8.41
Natural gas prices ($ /m^3)	0.38	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43
Natural gas prices (€ /m^3)	0.27	0.31	0.31	0.32	0.32	0.32	0.33	0.33	0.33	0.33	0.33	0.33

Source:IS Investment

- **Natural Gas Prices:** We considered the change in crude oil prices and US$/TL exchange rate, reflecting a certain lag for the change in natural gas prices when forecasting BOTAS' natural gas prices. We did not take any discount on BOTAS prices while calculating the natural gas cost of the company.

- **Operating Expense:** We assumed €0.004/kWh in operating expenses throughout our forecasted period.

- **Tax rate:** We have not changed the current corporate tax rate throughout the forecast period and taken it constant at 20%.

- **WACC assumptions:** We have taken risk free rate at 5%, benchmarking to 2010 Turkish Treasury Eurobonds, equity risk premium as 7%, beta as 1 and terminal growth rate as 0%. We have changed our WACC calculation based on the changes of debt-to-equity ratio and Euribor.

Figure 108: DCF Summary of Mersin Combined Cycle Power Plant

Eur mn	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net Sales	0	0	0	289	292	294	298	300	300	300	300	300
OP-EX	0	0	1	210	213	214	217	219	219	219	219	219
EBIT	0	0	-1	57	59	60	62	63	67	68	68	69
EBITDA	0	0	-1	79	79	80	81	81	81	81	81	81
EBITDA margin				*27.2%*	*27.2%*	*27.2%*	*27.1%*	*27.0%*	*27.0%*	*27.0%*	*27.0%*	*27.0%*
Depreciation	0	0	0	21	20	20	19	18	14	13	13	12
(-)Tax on EBIT	- 0	- 0	- 0	11	12	12	12	13	13	14	14	14
(-) Capex	33.4	99.1	143.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Working Capital	0	0	0	14	15	15	15	15	15	15	15	15
(-) change in WC	0	0	0	14	0	0	0	0	0	0	0	0
FCF (€ mn)	-34	-99	-144	53	68	68	68	68	68	67	67	67
WACC	8.9%	9.2%	9.5%	9.8%	10.1%	10.4%	10.6%	10.9%	11.1%	11.4%	11.7%	12.0%
Discount Factor	1.09	1.19	1.30	1.43	1.57	1.74	1.92	2.13	2.37	2.64	2.95	3.30
Discounted FCF	-31	-84	-111	37	43	39	35	32	28	26	23	20
Sum of DCF	58											
Terminal Growth	0%											
Terminal Value	170											
Equity Value	228											

Source: IS Investment

Figure 109: WACC Assumptions

WACC	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Risk free rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt	46%	46%	46%	43%	40%	36%	32%	27%	22%	16%	9%	0%
Equity	54%	54%	54%	57%	60%	64%	68%	73%	78%	84%	91%	100%
Cost of debt	6%	7%	8%	9%	9%	9%	10%	10%	10%	10%	10%	10%
After tax cost of debt	5.2%	5.9%	6.5%	6.9%	7.3%	7.6%	7.8%	7.9%	8.0%	8.0%	8.1%	8.1%
Cost of equity	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
WACC	8.9%	9.2%	9.5%	9.8%	10.1%	10.4%	10.6%	10.9%	11.1%	11.4%	11.7%	12.0%

Source: IS Investment

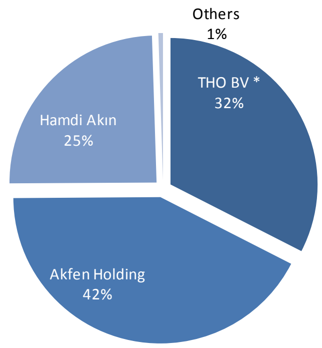
VI.7. Akfen REIT

The first REIT of Turkey generating rentals solely from hotels... Akfen REIT was registered with the Capital Market Board of Turkey as a REIT in August 2006. The company engages in accomodation facilities, development and ownership of hotel properties in Turkey, Northern Cyprus and Russia. Akfen REIT mainly focuses on the establisment of mid-scale and economy hotels in Turkey and Russia under Accor management.

Goldman's affiliate company Tho BV is the major partner of Akfen REIT

While Akfen Holding holds 42% stake in Akfen REIT (other shareholders did not participate to the recent 30% capital increase), Tho BV owns 32% of the company (previously 45%). In November 2007, Tho BV acquired 45% stake in Akfen REIT and became the financial partner of the company. In summary, Akfen Group together with Hamdi Akin, is the major shareholder of the company with 67% stake.

Figure 110: Shareholding Structure



Source: Company

(*) A Goldman Sachs company

Akfen REIT has a exclusive strategic partner, Accor Group, an international hotel management company running over 4,000 hotels worldwide. This strategic partnership between Accor and REIT is of an exclusive nature. The company develops hotel projects and creates a hotel ownership network which is managed by international Accor Group companies under 4-star Novotel and 3-star IBIS brands. The agreement between Accor Group and Akfen is for 25 years and principally based on lease contracts. Akfen REIT leases its hotel buildings to Accor in order to shift the risks associated with the operating of the hotels. That is a unique parthership in hospitality business in Turkey. Accor can terminate the Lease Agreement with effect at the end of the fifteenth (15) full Fiscal year upon a twenty-four (24) month prior written notice sent to Akfen. At the expiration of the Initial Term, this Agreement shall be extended for ten (10) full Fiscal years, on the same terms and conditions, provided that the Accor notifies the Akfen of its will to extend the term of the Agreement, in writing, twenty-four (24) months before the last day of the initial Lease Term. Based on the agreement Akfen REIT develops the hotel project and is responsible for finding and developing of the land and constructing the hotel, while Accor runs the hotels under its brands and shares the revenue or profit with Akfen REIT as rental payment. The basics of the agreement for the hotels in Turkey is that Akfen REIT receives the higher of 22-25% of the revenues or 65-70% of the Adjusted Gross Operating Profit (AGOP). While the share from the revenues is either 22% or 25%, share from the AGOP is either 65% or 70%. AGOP is calculated by deducting total of 4% of revenues from gross profit as fees paid to Accor. In addition a reservation fee of 1.5% of revenue is paid to Accor for its marketting actions. On top of these, 4% of the gross revenues is set aside as a reserve fund. On the other hand, Accor pays 75% of the AGOP to Akfen REIT as rental for the hotels in Russia. Akfen Insaat granted a put option to Tho BV which is exercisable if the IPO of Akfen REIT fails to occur by 30 June 2010 and which requires Akfen Holding as Guarantor and Akfen Insaat as the Seller, on a joint and several basis, to purchase all of the shares owned by Tho BV on 30 June 2010 at a price, which is the price paid by Tho BV to buy 45% of the Company in 2007+ an annual rate of Euribor+ 1.80%. According to the contract, Tho BV may choose to settle the put on 30 June 2011.

Figure 111: Terms of the agreement with Accor, Turkey hotels

Terms of the agreement	Time Period	Amount
Lease Term	**25** calendar years (**5** calendar years extension option to Accor) (To be revised as 25 calender years (early termination option to Accor at 15th year + 10 calender years extention option to Accor))	
Annual Rent Amount	**2007-2010: for all operating hotels**	22% of the hotels' gross revenues with a minimum guranteed amount
	2011 and onwards, starting 1/1/2010	
	Zeytinburnu and Eskisehir IBIS	Higher of 25% of hotel's gross revenues or 65% of AGOP
	Zeytinburnu and Trabzon Novotel	Higher of 22% of hotel's gross revenues or 65% of AGOP
	2010 and onwards All other IBIS	Higher of 25% of hotel's gross revenues or 70% of AGOP
	All other Novotel	Higher of 22% of hotel's gross revenues or 70% of AGOP

Figure 112: Terms of the agreement with Accor Russia hotels

Terms of the agreement	Time Period	Amount
Lease Term	**25 calendar years (early termination option to Accor at year 15th year + 10 calendar years extension option to Accor)**	
Annual Rent Amount	Througout the agreement	75% of AGOP
Minimum Guaranteed Rent for Samara and Yaroslavl IBIS Hotels	Throughout the agreement	EUR5,000/room for the 1st operational year
		EUR6,000/room for the 2nd operational year
		EUR7,000/room from the 3rd to 15th year
		From 16th year and onwards no minimum gurantee
Minimum Guaranteed Rent for Kaliningrad and Krasnoyarsk IBIS Hotels	Throughout the agreement	EUR4,000/room for the 1st operational year
		EUR5,000/room for the 2nd operational year
		EUR6,000/room from the 3rd to 15th year
		From 16th year and onwards no minimum gurantee
Minimum Guaranteed Rent for Novotel	Throughout the agreement	EUR6,500/room for the 1st operational year
		EUR8,500/room for the 2nd operational year
		EUR11,000/room from the 3rd to 15th year
		From 16th year and onwards no minimum gurantee

Source: Company

There are currently eight operating hotels in Turkey and one operating hotel in Northern Cyprus. Akfen REIT developed eight city hotels in the metropolitan areas accross Turkey. Of the eight operational hotel in Turkey two of them are located in Istanbul, two of them are in Kayseri, two of them are in Gaziantep, one of them is in Trabzon and one of them is in Eskisehir. There is one operational hotel in Northern Cyprus. Total number of rooms of the operational hotels are 1,568.

Figure 113: Operational Hotels in Turkey

Turkey - Income Generating Projects	Status	Hotel Opening Date	# of rooms
Zeytinburnu IBIS	In Operation	Mar-07	228
Zeytinburnu Novotel	In Operation	Mar-07	208
Eskisehir IBIS	In Operation	Apr-07	108
Trabzon Novotel	In Operation	Oct-08	200
Kayseri IBIS	In Operation	Mar-10	160
Kayseri Novotel	In Operation	Mar-10	96
Gaziantep IBIS	In Operation	Jan-10	177
Gaziantep Novotel	In Operation	Jan-10	92
Cyprus Mercure Hotel & Casino	In Operation	Jun-07	299

Source: Akfen REIT

Strong presence in Russia with Kasa Stroy... Akfen REIT's fully owned subsidiary Akfen Gayrimenkul Trade Co. established a JV with Kasa Stroy for the operations in Russia. Akfen Gayrimenkul holds 50% shareholding in the 2 joint venture companies established in Holland, namely Russian Hotel Investments B.V. and Russian Property Investments B.V. to develop hotel, office and residence projects in selected Russian cities. Kasa Stroy is a subsidiary of Turkey's Kayi&Insa Groups. It has operations in contracting, real estate development, energy and trade activities in Russia, Turkey, Kazakhstan, Algeria, Lithuania and UAE.

All hotels are strategically located in order to cater business travellers. There are two hotels in Istanbul under Akfen REIT umbrella currently, one is a 4-star Novotel and the other is a 3-star IBIS hotel. Both hotels are located in a very close proximity to the Istanbul Ataturk International Airport and many industrialized regions of Istanbul where business tourism capacity is very high. There is a 3-star IBIS hotel in Eskisehir. The city is located on the north-eastern of the Central Anatolia region, in the middle of the two largest cities of Turkey Istanbul and Ankara and has a rapidly developing urban population, where total population is 625K. The city's geographical closeness to international markets, availability of energy and raw material sources and presence of necessary infrastructures for industrial development have led to the rapid development of the regional industry. Novotel in Trabzon was opened at the end of 2008. Trabzon is one of the biggest cities of the Black Sea region with a population of 397K. The economical background of the city is mainly based on agriculture and stockbreeding. While 65% of the population lives on such activities, the remaining portion is engaged in trade, industry, handcrafts, transportation, construction and other service areas. The city's proximity to Caucasia makes it a natural commerce center of the region.

There are two hotels in Kayseri, which is one of the rising star of the Turkish economy in the last couple of years. Both IBIS and Novotel became operational in Kayseri in March 2010. Kayseri is one of the fastest developping cities of Turkey with a population of 1.2mn. In addition to the millions of small and medium enterprises, the city produced many business conglomerates of Turkey in the past few years, majority of which are operational in furniture and machinery production. On top of the rising economical influence, the city's effect on tourism is inflating thanks to mount Erciyes, which presents a good winter holiday opportunity and to the close proximity to historical region Cappadocia.

A four-star Novotel and a 3-star IBIS hotel will be built in Gaziantep. Gaziantep is located in Souteastern Turkey. The city is one of the most developed region of Southeastern Anatolia with 1.6mn population. Economy is mainly based on agriculture, industry and commerce. The manufacturing activities in Gaziantep are mainly carried out by medium to small-scale enterprises. The city is known as an "export gate" thanks to its 120 different products exported to 40 countries.

The Mercure hotel in Northern Cyprus offers a sea-sand-sun holiday together with a casino. Mercure Hotel became operational in June 2007 as the first and the only 5-star hotel of the company. The hotel is located on a cape in Kervansaray region on a 49,000 sqm site with a private beach. There is high-service quality casino attached to the hotel as well, which is the largest casino in the region in terms of both space and gaming capacity.

The company plans to build a minimum nine more hotels in Turkey until 2015 as agreed with its exclusive strategic partner Accor. Total room capacity of the hotels are planned to be 1,530, which will increase the total room capacity of Akfen REIT to 3,098 by 2015. The company will invest some EUR111mn (inc. VAT) for the hotels, of which EUR42mn (inc. VAT) will be spent for the land.

Figure 114: Planned Projects, Turkey

Turkey - Ongoing and Planned Projects	Status	Start of Construction	Hotel Opening Date	# of rooms
Bursa IBIS	Under Construction	Jul-09	Jan-11	200
Beylikduzu IBIS	Land secured - Planning	Apr-10	Jun-11	161
Adana IBIS	Planning	Oct-10	Apr-12	189
Istanbul Kartal IBIS	Planning	Apr-11	Oct-12	120
Izmir IBIS	Planning	Oct-12	Jan-14	150
Istanbul Anadolu Merkez IBIS	Planning	Jul-13	Apr-15	180
Istanbul Avrupa Merkez IBIS	Planning	Oct-12	Jul-14	200
Ankara IBIS	Planning	Oct-11	Apr-13	150
Ankara Novotel	Planning	Jan-14	Oct-15	180

Source: Akfen REIT

Out of the planned nine hotels four of them will be in Istanbul, two of them in Asian side and the other two of them in European side. While two hotels will be opened in the capital city, Ankara, one of them will be in Izmir, the third largest city of Turkey, one of the will be in Bursa, one of the most industrialized regions of Turkey and one of them will be in Adana, where the agriculture sector is very developed.

There are six projects under construction or at planning stage in Russia. The company does not have any operational hotel in Russia currently. There are two hotels and one office project under construction, and three hotels whose construction will kick off in 2010 and 2011. With the completion of the hotels total room capacity of the hotels in Russia will reach 750. On top of the aforementioned ones, there is another project at the planning stage, an IBIS hotel in Moscow. Total room number of the hotel would be a large 496 and it is planned to become operational by 2013. Total investment budget of the company for its share of these hotels and office project in Russia is EUR83mn (inc. VAT), inclusive of the land cost.

Figure 115: Planned Projects, Russia

Russia - Ongoing and Planned Projects	Status	Start of Construction	Hotel Opening Date	# of rooms
Samara IBIS	Under Construction	Jul-09	Jan-11	204
Yaroslavi IBIS	Under Construction	Apr-10	Jul-11	177
Kaliningrad IBIS	Planning	Nov-10	Apr-12	167
Krasnoyarsk IBIS, Novotel	Planning	Jan-11	Jan-13	202
Samara Office	Under Construction	Jul-09	Jan-11	
Moscow Leningradsky IBIS	Planning	Apr-11	Jul-13	496

Source: Akfen REIT

Under-penetration in Russia is the main motive behind the investment in this country. The company's first hotel, which will include a small office building will be in the city Samara which has a population of 1.1mn. Samara is the administrative, industrial, and cultural center of the Middle Volga and the second city in Russia after Moscow . Samara is one of the country's main oil producing and refining districts. One quarter of all Russia's bearings and two thirds of all Russia's communication cables are produced in Samara. The volume of foreign investment grew by a massive 800% from 2001 to 2006 to reach US$607mn levels. There are 160 large and medium-sized industrial companies in the city. Another IBIS hotel will be opened in Yaroslavl, located 280km away from Russia. The city is one of the most attractive regions for tourists. In 2012, the company plans to open another IBIS hotel in Kaliningrad with 167 rooms capacity. The Kaliningrad Region is located on the southeast coast of the Baltic Sea. The city is expected to develop quickly as it has obtained a Special Economic Zone (SEZ) status, with a federal law giving tax privileges for large investors. As a result, 39 companies have registered in the region. Akfen REIT will launch two hotels, a Novotel and an IBIS in Krasnoyarsk by 2013. The Krasnoyarsk Territory is in Siberia and occupies one-tenth of Russia's total area. The site is located in the administrative centre of the city surrounded by administrative and office buildings, and also retail units. The Krasnoyarsk Territory has some of the richest natural resources in Russia. The most important natural resources include hydropower, coniferous forests, coal, gold and rare metals, oil, gas, iron , nickel and polymetallic ores.

The company plans to finance the projects through already secured bank loans and the proceeds from its planned IPO, scheduled for the 4Q10. Akfen REIT signed a loan aggrement of EUR100mn with Isbank and TSKB in 2008 in order to finance the ongoing hotel projects based on the contracts signed with Accor. The company has TL188mn net debt as end of 2009 of which TL161mn is long-term. Recently with the capital increase of TL27,5mn to TL100mn from TL72,5mn in March 2010, the company has closed down most of its payable to its shareholders and short-term bank loans.

Valuation & Key Assumptions

We have derived the fair value of Akfen REIT via DCF. We have run three different DCF models, namely bear-case, base-case and bull-cases. In all methods we have applied the basic principles of the agreement with Accor and accordingly calculated revenues of the company. The only difference between the models are the average daily room rates (ADR). To say:

- **Bear-case:** ADRs are constant in Euro-terms during the forecast horizon
- **Base-case:** ADRs increase 4% in the first four years of operations, 2% in the following four years of operation and remanins constant going forward.
- **Bull-case:** We applied an average 4% price increase in Euro terms each year.

Accordingly the fair value of Akfen REIT is EUR214mn in base case, EUR151mn in bear -case and EUR259mn in bull-case.

Figure 116: Summary Valuation

Method	€mn
Bear-Case	151
Base-Case	214
Bull-Case	259

Source: Is Investment

Basic assumptions we have used in base-case modelling are as follows:

- Our forecast horizon is 10 years between 2010 and 2020.
- We have increased ADRs by 4% per annum in Eur terms, in the first four years of operation, 2% in the following four years and kept constant going forward.
- Occupancy rate for the hotels vary between 70% to 80%.
- In-line with the company guidance we assumed the company to spend EUR111mn for Turkey investments and EUR83mn for Russia investments
- We have used Euro based risk free rate of 5% both for Turkey projections and Russia projections.
- Our equity risk premium is constant at 6% both in Turkey and Russia
- We have used the company's current Euro funding rate at 7% as cost of debt.
- We have taken the average Beta of the listed Turkish REITs, 0.75x, made it levered which yielded a Beta of 0.975x.
- We assumed 3% terminal growth in our model reflecting the growth potential of the company with the planned new hotels that we have not counted in our valuation.
- The agreement regarding the sale of 15% shares of RHI to EBRD and IFC and long term financing are assumed to be completed in the first half of 2010.

WACC Assumptions, Turkey	
Risk free rate	5%
Equity risk premium	6%
Beta	0.975
Cost of equity	10.9%
Cost of debt	7.0%
Weight of equity	60%
Weight of debt	40%
WACC	9.3%

WACC Assumptions, Russia	
Risk free rate	5%
Equity risk premium	6%
Beta	0.975
Cost of equity	10.9%
Cost of debt	7.0%
Weight of equity	60%
Weight of debt	40%
WACC	9.3%

Source: Is Investment

Figure 118: DCF Summary of Turkey Hotels

Euro, mn	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues	9.8	13.3	16.0	18.5	21.3	24.8	28.2	29.2	30.3	30.8	31.2
Administrative Expenses (*)	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.5
EBITDA	9.2	12.6	15.2	17.5	20.0	23.2	26.6	27.6	28.6	29.0	29.2
(-) capex	-17	-22	-26	-15	-10	-6	0	0	0	0	0
(-) VAT Inflow-Outflow	-2	-1	1	1	1	3	4	2	2	1	1
FCF	-9.7	-10.0	-10.1	3.1	10.5	20.0	30.3	30.0	30.1	29.6	30.4
WACC	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
PV of FCF	-11.7	-11.0	-10.2	0.8	5.9	11.4	16.5	14.9	13.6	12.2	11.4
Terminal Growth	3%										
PV of TV	187										
Total	240										

(*) HQ Expenses

Source: Is Investment

Figure 119: DCF Summary of Russia Hotels

Euro, mn	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues	0.0	1.0	1.9	5.3	9.1	10.7	11.7	12.4	12.6	12.8	13.1
EBITDA	-0.1	0.6	1.4	3.7	7.4	9.0	10.2	10.9	11.2	11.4	11.7
(-) capex	-18	-22	-20	-3	0	0	0	0	0	0	0
(-) VAT Inflow-Outflow	-3	-5	-4	-0	1	2	2	2	2	0	0
FCF	-19.6	-24.7	-21.7	0.0	8.9	10.8	12.1	12.9	12.7	11.8	11.7
WACC	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
PV of FCF	-19.6	-22.6	-18.2	0.0	6.2	6.9	7.1	6.9	6.2	5.3	4.8
Terminal Growth	3%										
PV of TV	78										
Total	61										

Source: Is Investment

Figure 120: DCF Summary, total

Euro, mn	
Turkey Total	240
Russia Total	61
Net Debt	88
Total Equity Value	214

Source: Is Investment

Figure 121: Sensivity Analysis, EURmn

		WACC				
		8.5%	9%	9.3%	10%	10.5%
Growth rate	2%	230.4	195.4	175.7	138.8	115.8
	3%	283.6	238.8	214.2	168.9	141.1
	4%	360.4	299.6	267.2	208.9	174.2

Source: Is Investment

Figure 122: Summary of the Key Financials for Akfen REIT

Income Statement (TLmn)	2008A	2009A	2010E	2011E	2012E	2013E	2014E
Revenues *	15	18	21	32	42	60	80
EBIT	6	12	16	25	34	48	66
Other income (expense), net	0	0	0	0	0	0	0
Financial expenses, net	-43	-18	-13	-12	-12	-11	-8
Income before tax excl. Minority Interest	-36	-6	2	13	23	37	58
Taxation on Income	-9	4	0	0	0	0	0
Net income	-45	-2	2	13	23	37	58
Cash Flow Statement (TLmn)							
Net Income	-45	-2	2	13	23	37	58
Indemnity Provisions	0	0	0	0	0	0	0
Change in Working Capital	-	18	-14	6	2	18	3
Cash Flow from Operations	-	16	-12	18	25	55	61
Capital Expenditure	-	(0)	0	(0)	0	0	0
Free Cash Flow	-	16	-12	18	25	55	61
Rights Issue	-	0.0	0	0	0	0	0
Dividends Paid	-	0	0	0	0	0	0
Other Cash Inflow (Outflow)	-	-40	28	0	1	0	0
Change in net cash	-	-24	16	18	25	55	62
Net Cash	-	-188	-173	-154	-130	-74	-12
Balance Sheet (TLmn)							
Property, plant & equipment	0	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0	0
Trading Property	1	1	1	1	1	1	2
Other long-term assets	65	51	51	51	51	51	51
Inventories	0	0	0	0	0	0	0
Trade receivables	7	3	4	5	7	10	13
Receivables from related parties	0	0	0	0	0	0	0
Cash & equivalents	3	0	2	13	23	37	58
Other current assets	1	0	0	0	1	1	1
Investment Property	372	441	441	441	441	441	441
Total assets	448	497	500	512	524	541	566
Long-term debt	106	161	161	138	115	92	69
Other long-term liabilities	5	1	2	2	3	3	4
Short-term debt	61	27	14	29	37	19	2
Trade payables	9	23	9	17	20	41	47
Other short-term liabilities	0	0	0	0	0	0	0
Total liabilities	181	213	186	185	175	155	122
Total equity	266	284	314	327	349	386	444
Paid-in capital	73	73	100	100	100	100	100
Total liabilities & equity	448	497	500	512	524	541	566
Ratios (%)							
ROE	-23%	-1%	1%	4%	7%	10%	14%
Net debt/EBIT		1569%	1113%	623%	379%	156%	19%
Net debt/Equity	62%	66%	55%	47%	37%	19%	3%
EBIT Margin	43%	68%	73%	77%	80%	80%	83%
Net Margin	-301%	-10%	11%	39%	53%	62%	73%

* Revenues are composed of rental revenues only

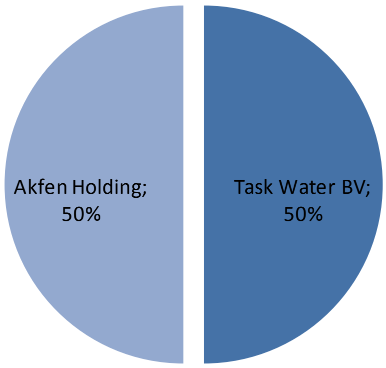
Source: Is Investment

VI.8. TASK (Water & Waste Water Utilities)

The first private municipality water utilities concession operator company of Turkey. Established on July 2005, TASK Water and Wastewater Investment Construction and Operation manage and construct facilities for producing drinking water and potable water from surface and subsurface springs, collecting domestic and industrial waste water and providing waste water treatment services.

Akfen Holding and Task Water BV, which is an affiliate of Kardan N.V. jointly control the company with equal 50% stake. Kardan N.V. is an international investment company, based in Netherlands. The company mainly focuses on the real estate, financial services and infrastructure sectors mostly in Central and Eastern Europe, Africa, CIS Countries, South America and China.

Figure 123: Shareholding Structure



Source: Company

The company succeeded to win the tenders at every project. Since the relevant legislation that enables municipalities to tender water and waste water concessions became effective (Municipality law # 5393, dated 13/07/2005) TASK has won all municipality concessions awarded so far in Turkey. Apart from the concessions TASK was awarded with the Build Operate and Transfer (BOT) contract of Dilovası Organized Industrial Zone which is one of the largest industrial zones of Turkey.

TASK has currently 2 operations in Dilovası and Gulluk. Other two concession projects, Kars and Çorlu are in approval stage

TASK Gulluk (Concession): Operations commenced in August 2006. All infrastructural investments were completed and company serves over 4,000 subscribers. TASK provides potable and waste water services to public via building and operating the treatment plants and pipelines in Gulluk operation.

TASK Dilovası (BOT): Established in 2007 to build and operate wastewater treatment plant of Dilovası Organized Industrial Zone (OIZ). Investments for the project have been finalized and the company has begun its operations by March, 31 2010. With Dilovası project TASK provides wastewater treatment services to the industrials of the zone and the population of the nearby Dilovası town by operating Wastewater Treatment Plant and Main Collector Line in Dilovası Organized Industrial Zone. Given the complex nature of such waste treatment, TASK has agreed on a minimum flow guarantee by the Zone management. In Dilovası the company will serve 196 factories around 40.000 population of Dilovası town .

Task Kars (Concession): Task became the preferred bidder in the concession tender for the construction and operation of water and waste water network of Kars Municipality. The concession agreement is in approval stage. With Kars project the company plans to serve approximately 20K subscribers.

TASK Çorlu (Concession): Task became the preferred bidder in the concession tender for the construction and operation of water and waste water network of Çorlu Municipality. The concession agreement is in approval stage. With Çorlu project the company plans to serve approximately 65K subscribers.

Financing package for the EUR16mn investment is almost completed... In 2009, TASK signed a mandate agreement with the EBRD for a financial partnership and a loan package. On 19 March 2010 TASK and EBRD has signed a term sheet for EURO 16 mio loan package which includes refinancing of TASK projects. TASK expects EBRD's investment decision committee to approve the term sheet in April 2010. For equity participation, EBRD is currently carrying on its review and appraisal of TASK and its projects.

...will benefit from being the first mover... Capitalizing on being the first mover, TASK targets to acquire stakes in metropolitan municipalities which have their own distribution companies and plan to sell their stakes. Additionally "non-metropolitan" municipalities that could grant concessions based on Municipality law # 5393 and Organized industrial zones constitute the target market for the company.

Risks of the business... Although seems like a low risk investment, there are challenges to be coped with such as current low market share of the private sector in water and waste water treatment sectors which creates a long term potential uncared distribution networks, insufficient wastewater treatment systems and 40%-60% non revenue water in distribution networks.

Figure 124: Summary of Current Projects

TASK - Summary of Current Projects				
	Güllük	Dilovası	Kars	Corlu
Concession Start Date	29.08.2006	14.04.2008	Approval stage	Approval Stage
Duration	35 years	29 years	49 years	35 years
Counterparty	Gulluk Minicipality	Dilovası OIZ Administration	Kars Municipality	Corlu Municipality
Brief Discription	Operation and construction of Gulluk water supply and waste water network	Construction and operation of the domestic and industrial wastewater treatment plant and main collector line of Dilovası OIZ	Operation and construction of Kars water supply and waste water network	Operation and construction of Corlu water supply and waste water network
Concession Fee	Fixed annual concession fee and revenue sharing	BOT	Fixed annual concession fee and revenue sharing	Fixed annual concession fee and revenue sharing
Tariff Structure	Adjusted every 6 months with CPI	OIZ guarantees minimum flow volume and EURO tariff through the BOT period	Adjusted every 6 months with CPI	Adjusted every 6 months with CPI
Total Subscribers	4,649 (as of Jan. 2010)	OIZ member factories (196 companies as of Dec. 2009)	approx. 20K	approx. 65K

Source: TASK

Gulluk

Briefly on the region…Gulluk is a coast town in Aegean Region with a population of 3,743 which exceeds 16,000 in summer. The town started to attract more tourists in the last couple of years due to the proximity to the airport (just 10 minutes drive). As the summer tourism is inflating there are many ongoing residential projects in town together with four ongoing hotel constructions.

Details of the concession… The concession period is 35 years between 2006 and 2041. TASK will pay a fixed TL10K per year fee to the Municipality each year which rises annually in line with the CPI rate. Water and wastewater usage fee, on the other hand, is based on annual turnover. The company will pay 1% of the potable water turnover in the first five years, 2% between the 5th and 10 years, 10% between 11th and 16th years and 20% onwards. The wastewater fee is fixed at 20% of the wastewater turnover. Water tariff will be adjusted semi-annually in line with the increase in CPI.

Dilovasi

Briefly on the region… Being one of the largest organized industrial zones (OIZ) of Turkey, Dilovasi is located in Marmara region. As of January 2010 there are 196 active factories in OIZ which may be increased up to 500 given the enough capacity. Current factories barely cover 33% of the available land.

Details of the BOT agreement… The BOT agreement covers 29 years starting April 14 2008, including a 2-year construction period. As per the BOT agreement, the Administration of Dilovası OIZ guarantees yearly minimum wastewater flow volume for each year of the operation. Tariffs are Euro denominated during the agreement and EUR1.325 cubic meters for the first 11 years and EUR0.825 cubic meters for the rest of the BOT period. While TASK holds 75% interest in the BOT, Arbiogaz, a factory in the zone, owns 25%.

Kars

Briefly on the region… Kars is a 76K populated city located in Eastern Anatolia. The region became center of attraction for various reasons such as Tblisi-Kars railway project which will make the city the hub of the region. Kars Airport is also one of the most important airports of the region serving to neigbouring cities such as Ağrı, Ardahan, Art-vin and Iğdır. Once approved this project is estimated to be a role model for Eastern Anatolia region and other concessions oppurtunities are thought to emerge.

Details of the concession… The concession period is 49 years. TASK will pay a fixed TL10K per year fee to the Municipality each year which rises yearly in line with the CPI rate. Water and wastewater usage fee, on the other hand, is based on annual turnover. Water tariff will be adjusted semi-annually parallel to the CPI.

Corlu

Briefly on the region... Corlu is the most developed and populated city of Tekirdag province. It lies roughly 100 kilometers to the west of Istanbul and has a very convenient geographical location with strong transportation links. Çorlu is heavly industrialized city hosting various industrial zones, factories and an airport. It is an attractive location for migration and it's proximity to İstanbul and Europe attracts industrials to the region.

Details of the concession... The concession period is 35 years. TASK will pay a fixed fee per year which is adjusted with CPI rate annualy. Water and wastewater usage fee is based on annual turnover and Water tariff will be adjusted semi-annually parallel to the CPI.

Valuation & Key Assumptions

We have valued Akfen Holding's TASK assets via a DCF model. While our DCF-driven fair value for Dilovasi is EUR20mn, our value for Gulluk is TL32mn, which adds up to TL67mn, after deducting the TL8mn net debt position of TASK.

Main assumptions we have used in the model are as follows:

- The model was rather straightforward as all fees and tariffs were clearly defined in the concession and BOT agreements.
- We have estimates during the BOT and concession periods ending in 2036 and 2041, respectively.
- After the concession and BOT periods end, we have not assumed any terminal value.
- We have run a Euro model in Dilovasi as tariffs are Euro-denominated. In our Euro model we have taken risk free rate as 5%, equity risk premium as 5% and Beta as 0.75x, which yielded a WACC of 8.1% with 6% cost of debt.
- For Gulluk, on the other hand, we have utilized a TL-based model, as all tariffs and fees are TL denominated. We have taken risk free rate as 11% in our TL model, which yielded a WACC of 14.1% with 5% equity risk premium and 0.75x Beta.
- The company plans to invest a total TL24mn throughout the lifetime of the two projects, of which TL9mn will be used in Gulluk and remaining TL15mn will be used in Dilovasi.
- We have raised drinking water average tariff with annual TL inflation over years in Gulluk as quoted in the concession agreement, while euro basis unit price in Dilovasi is EUR1.325/m3 between 2010 and 2020, declining to EUR0.825/m3 until the end of BOT period, or 2036, as per the BOT contract.
- We have used company guidance for total water consumption in both regions. Thus we assumed total water consumption in Dilovasi to rise at a CAGR of 2.85% to reach to 7.2mn cubic meters by 2036 from 3.36mn cubic meters in 2010. For Gulluk, on the other hand, we assumed a higher pace of growth with 4.54% CAGR increasing from 433K cubic meters in 2010 to 1.9mn cubic meters by 2041.
- We envisaged an average 3% rise in opex each year both in Gulluk and Dilovasi.

Figure 125: WACC Assumptions

WACC Assumptions, Gulluk	
Risk Free Rate (TL)	11.0%
Equity Risk Premium	5.0%
Beta	75.0%
Cost of Equity	14.8%
Cost of Debt (TL)	12.0%
Weight of Equity	77.1%
Weight of Debt	22.9%
WACC	14.1%

WACC Assumptions, Dilovasi	
Risk Free Rate (€)	5%
Equity Risk Premium	5%
Beta	0.75
Cost of Equity	8.8%
Cost of Debt (€)	6.0%
Weight of Equity	77.1%
Weight of Debt	22.9%
WACC	8.1%

Source: Is Investment

Figure 126: DCF Summary, Gulluk

Gulluk (TLmn)	2010E	2011E	2012E	2013E	2014-2041E
Revenues	2.8	4.6	5.2	5.6	409.1
EBIT	1.1	2.7	3.0	3.3	221.8
Depreciation	0.7	0.8	0.8	0.7	15.2
EBITDA	1.9	3.5	3.8	4.0	236.9
(-) capex	-0.5	-0.3	-0.2	-0.2	-7.5
(-) tax	0.0	0.0	0.0	0.1	40.9
(-) Ch. WCR	-0.2	-0.3	-0.1	-0.1	-2.9
FCF	1.2	2.9	3.5	3.7	185.7
WACC	14%	14%	14%	14%	14%
PV of FCF	1.2	2.5	2.7	2.5	23.0
Total of PV of FCF	32				

Source: Is Investment

Figure 127: DCF Summary, Dilovasi

Dilovası (EURmn)	2010E	2011E	2012E	2013E	2014-2036E
Revenues	2.6	5.2	5.5	5.9	129.6
EBIT	0.8	2.3	2.4	2.7	36.3
Depreciation	0.6	0.7	0.7	0.7	12.3
EBITDA	1.5	3.0	3.2	3.4	48.6
(-) capex	-5.4	-1.6	0.0	0.0	0.0
(-) tax	0.0	0.2	0.4	0.4	7.0
(-) Ch. WCR	-0.2	-0.1	0.0	0.0	0.0
FCF	-4.1	1.2	2.8	3.0	41.6
WACC	8%	8%	8%	8%	8%
PV of FCF	-4.1	1.1	2.4	2.3	18.0
Total of PV of FCF	20				

Source: Is Investment

Figure 128: Combined Figures, Dilovasi+ Gulluk

Combined, (TLmn)	2010E	2011E	2012E	2013E	2014-2041E
Revenues	8.4	16.1	18.2	20.3	913.7
EBIT	2.9	7.8	8.8	10.0	351.2
Depreciation	2.1	2.4	2.5	2.6	60.1
EBITDA	5.1	10.2	11.3	12.6	411.3
(-) capex	-12.0	-3.9	-0.2	-0.2	-7.5
(-) tax	0.0	0.3	0.9	1.2	66.1
(-) Ch. WCR	-0.7	-0.4	-0.2	-0.1	-3.0
FCF	-8	6	10	11	335

Source: Is Investment

Figure 129: Summary of the Key Financials for TASK

Income Statement (TL mn)	2008A	2009A	2010E	2011E	2012E	2013E	2014E
Revenues	1	2	8	16	18	20	22
EBITDA	-3	-1	5	10	11	13	14
Depreciation & Amortisation	0	0	2	2	3	3	3
EBIT	-3	-1	3	8	9	10	11
Other income (expense), net	0	0	0	0	0	0	0
Financial expenses, net	0	0	-2	-1	-1	-1	-1
Income before tax excl. Minority Interest	-3	-1	1	7	8	9	10
Taxation on Income	0	0	0	0	0	1	1
Minority Interests	0	0	0	-2	-2	-2	-3
Net income	-3	-2	1	5	5	6	7
Cash Flow Statement (TL mn)							
Net Income	-3	-2	1	5	5	6	7
Depreciation & Amortisation	0	0	2	2	3	3	3
Indemnity Provisions	0	0	0	0	0	0	0
Change in Working Capital	0	0	-7	-9	-2	-5	-10
Cash Flow from Operations	0	-1	-4	-2	6	4	-1
Capital Expenditure	0	0	2	4	2	3	2
Free Cash Flow	0	-2	-6	-7	3	1	-3
Rights Issue	0	7.0	0	0	0	0	0
Dividends Paid	0	0	0	0	0	0	0
Other Cash Inflow (Outflow)	0	-13	-4	-7	6	2	2
Change in net cash	0	-7	-6	-4	9	3	-1
Net Cash	0	-7	-13	-18	-9	-6	-7
Balance Sheet (TL mn)							
Property, plant & equipment	1	1	1	1	1	1	1
Intangibles	11	11	11	10	10	10	10
Trading Property	0	0	0	0	0	0	0
Other long-term assets	11	25	26	28	25	26	26
Inventories	0	0	0	0	0	0	0
Trade receivables	2	3	14	27	30	36	48
Receivables from related parties	0	0	0	0	0	0	0
Cash & equivalents	0	1	1	6	10	11	12
Other current assets	0	0	0	0	0	0	0
Total assets	25	39	52	72	76	84	96
Long-term debt	0	7	6	4	1	1	1
Other long-term liabilities	1	1	1	1	1	1	1
Short-term debt	0	1	8	19	17	15	17
Trade payables	3	3	8	11	13	14	15
Other short-term liabilities	0	0	0	0	0	0	0
Total liabilities	4	13	23	36	33	32	35
Total equity	21	27	29	35	43	52	61
Paid-in capital	6	13	13	13	13	13	13
Total liabilities & equity	25	39	52	72	76	84	96
Ratios (%)							
ROE	-4%	-8%	3%	15%	14%	13%	12%
ROIC	-3%	-10%	17%	29%	26%	26%	23%
Net debt/EBITDA	0%	-838%	264%	174%	77%	46%	49%
Net debt/Equity	1%	27%	47%	50%	20%	11%	11%
Capex/Sales	0.0%	24.7%	25.1%	27.8%	12.2%	12.7%	10.7%
Capex/Depreciation		0.95	0.98	1.85	0.88	0.99	0.90
EBITDA Margin	-239%	-50%	60%	63%	62%	62%	62%
EBIT Margin	-239%	-76%	35%	48%	48%	49%	50%
Net Margin	-266%	-108%	10%	29%	29%	31%	30%

Source: IS Investment

VII. Appendix (Sectors)
VII. 1. Turkish Electricity Sector

Market Structure

Despite ongoing privatization efforts, the Turkish electricity sector is still largely controlled by the government. The sector (generation, transmission, wholesale and distribution) was managed by a single government entity, the Turkish Electricity Administration (TEK), until 1993; TEK was then divided into two separate companies; TEAS (Turkish Electricity Company) and TEDAS (Turkish Electricity Distribution Company) as a first step towards liberalization and privatization.

The Electricity Market Law was enacted in 2001, with the purpose of developing a financially sound and transparent electricity market in a competitive environment. The cornerstones of the law were the establishment of the regulator, the Electricity Market Regulatory Authority and the breakdown of TEAS into three different companies.

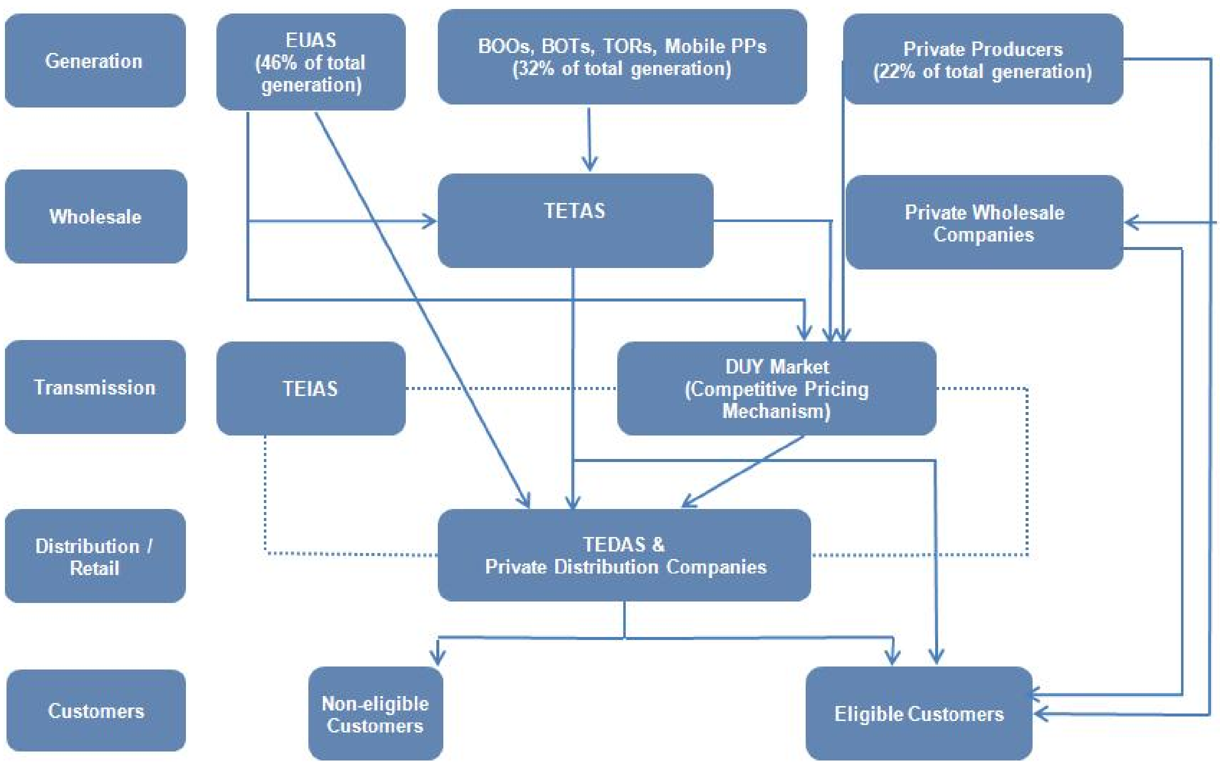
The paper on electricity Sector Reform and Privatization strategy points to full liberalization of the market by 2012

The Electricity Market Regulatory Authority was charged with the responsibility of regulating the electricity markets, issuing licenses to sector players and monitoring their activities, as well as approving tariffs. It was later renamed as the Energy Market Regulatory Authority. Accordingly, EMRA started to regulate and supervise the oil product and LPG markets.

In the meantime, TEAS was divided into three companies; EUAS (the Electricity Generation Company), TEIAS (the Turkish Electricity Transmission Company), and TETAS (the Turkish Electricity Wholesale Company).

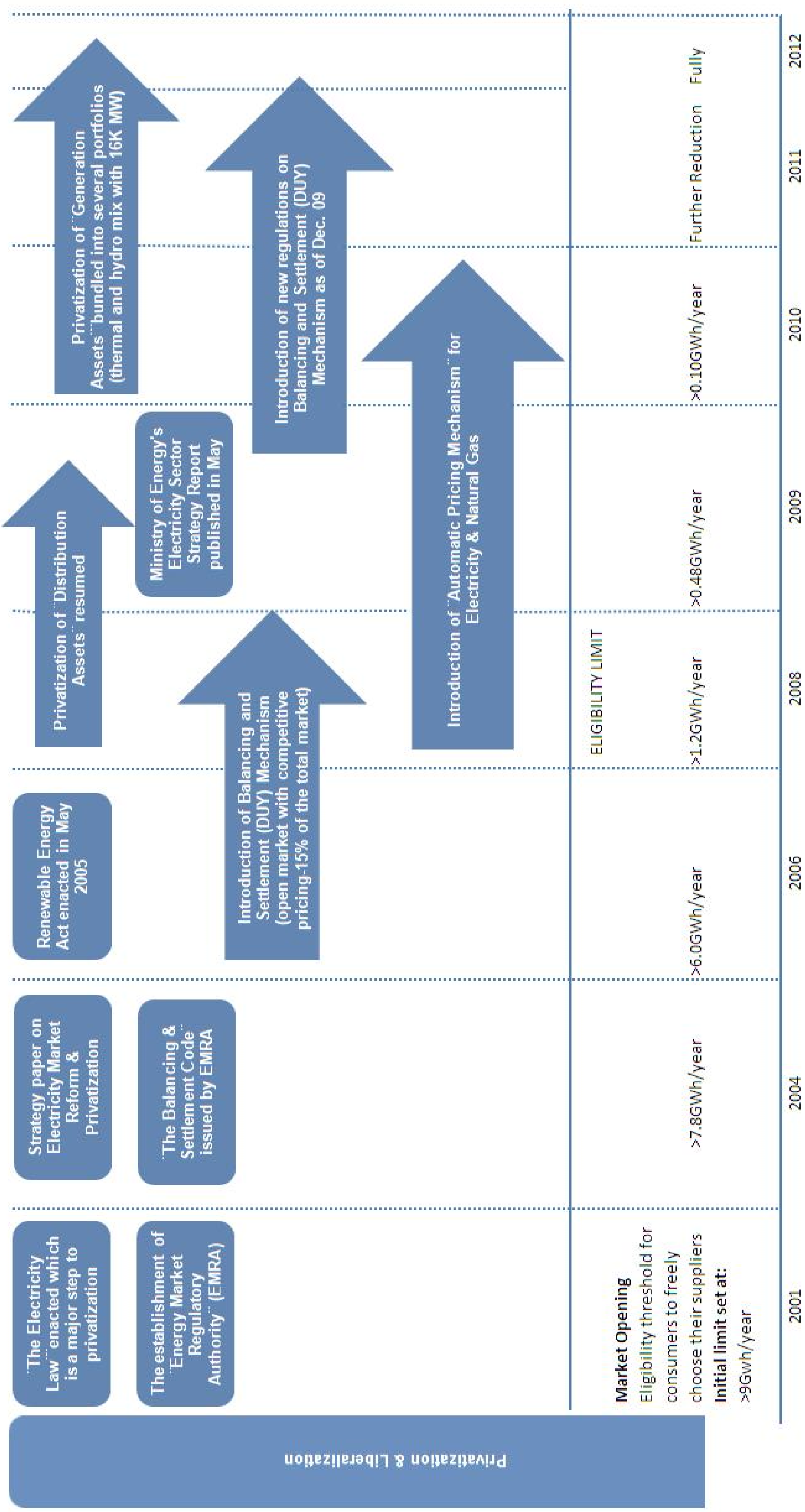
In March 2004, "Electricity Sector Reform and Privatization Strategy Paper" was published by the High Planning Council. The Paper set out a timetable for a fully liberalized market by 2012.

Figure 130: Turkish Electricity Sector: Market Structure



Source: EMRA

Figure 131: Turkish Electricity Sector: Privatization and Liberalization



Source: EMRA

Privatization

The main purpose of the privatization is to ensure the delivery of electricity to consumers in an adequate, quality, continuous, and low-cost manner. The major benefits of the privatization of the electricity sector are summarized as below:

Privatization in the electricity sector aims to ensure electricity is delivered to consumers in an adequate, high quality, continuous and low-cost manner

•Decreasing of costs through effective and efficient operation of electricity generation and distribution assets

•Increasing the supply quality and supply security in the electricity sector

•Decreasing the technical losses in distribution sub-sector to the level of OEDC countries and prevention of theft

• Ensuring that the required rehabilitation and expansion investments are performed by the private sector without creating any liabilities on the public institutions

•Transferring to consumers the benefits obtained through competition in generation, trade of electricity, and regulation of quality of service.

We believe that speeding up the privatization of both electricity distribution and generation segments will attract the attention of investors, who want to act as vertically integrated energy players in the developing Turkish energy market.

Privatization of Distribution Assets

Loss/theft ratios vary between 4% and 64% in Turkey

High loss/theft ratios compared to developed countries is the major challenge. The overall loss/theft ratio in Turkey was 14.4% in 2008, compared to 14.8% in 2007. This compares with a loss/theft ratio of 7% in the developed world. The loss/theft ratio is not evenly distributed within Turkey: while it is around 11% in Istanbul, it climbs to as high as 64% in Eastern Turkey (Dicle). Loss/theft ratios are expected to come down with the on-going privatization of distribution regions. Privatization of the distribution assets will also help the renewal of the distribution infrastructure, which is in need of high amount of investment since the government is unlikely to meet the required investment due to its tight budget conditions.

The distribution grid is divided into 21 regions. 20 joint stock companies owned by TEDAS (Turkish Electricity Distribution Company) engaged in the distribution and retail sale of electricity to final customers control the Turkish Electricity sector. The only distribution region excluded was Kayseri Electricity Distribution Region which has been operated by a partially private company since 1990s. After several unsuccessful privatization attempts starting in 1990's, the government had decided to privatize the distribution regions in 2006 but the tenders were once again postponed due to regulatory problems. Please note that Menderes Electricity Distribution Region has been transferred to AYDEM Guney Bati Anadolu Enerji Company for US$110mn in 2008 after a prolonged legal process related to the acquired rights arising from the previous privatization activities. Also, Goksu Electricity Distribution Region has been excluded from the privatization program in 2009.

The privatization efforts speeded up in 2008 once again to sell the remaining 18 regions and the Privatization Administration succeeded to privatize Baskent, Sakarya, Aras and Meram electricity distribution regions. EnerjiSA (Sabancı Holding <SAHOL.TI> - Verbund JV), AkCEZ (50% CEZ, 45% Akenerji <AKENR.TI> and 5% Akkok Holding), Akcen Enerji consortium (%51 Alsim Alarko <ALARK.TI>, %49 Cengiz Holding) have won the privatization tenders of Baskent electricity distribution region at US$1,225mn, Sakarya electricity distribution region at US$600mn and Meram electricity distribution region at US$440mn, respectively. These grids have already been transferred to their new owners, while Aras deal is still awaiting approval from the Privatization Supreme Board.

Resolution of Aras deal expected in the near future.

Full steam ahead for privatization of distribution assets

The distribution grids of Coruh Electricity Distribution A.S. (covering Artvin, Giresun, Gumushane, Rize and Trabzon), Osmangazi Electricity Distribution A.S. (covering Afyon, Bilecik, Eskisehir, Kutahya and Usak), and Yesilirmak Electricity Distribution A.S. (covering Amasya, Corum, Ordu, Samsun and Sinop) were privatized in November 2009. Aksa Elekrik won the privatization in the Coruh distribution region tender for US$227mn. The Coruh grid covers approximately 960,000 customers, with a 12% loss and theft ratio. Calik Enerji won the privatization of the Yesilirmak distribution region tender with a US$441.5mn bid. The Yesilirmak grid covers approximately 1.43mn customers, with a 9% loss and theft ratio. Meanwhile, Eti Gumus won the privatization of the Osmangazi distribution grid, with approximately 1.27mn customers and a 5.2% loss and theft ratio, for US$485mn. These deals are pending approval at the privatization supreme board.

The privatization tenders of four more electricity distribution grids (Van Golu, Firat, Camlibel, and Uludag) were completed in February 2010. Aksa Elektrik won the privatization tender for the Van Golu electricity distribution region (covering Bitlis, Hakkari, Mus and Van) for US$100.1mn and the Firat electricity distribution region (covering Bingol, Elazig, Malatya and Tunceli) for US$230.25mn. The Van Golu grid has approximately 400,000 customers and a record high 55.9% loss and theft ratio, while the Firat grid has approximately 660,000 customers and a relatively mild 10.5% loss and theft ratio. Meanwhile, Kolin Insaat won the privatization tender of the Camlibel electricity distribution region, which covers around 730,000 customers in Sivas, Tokat, Yozgat and has an average loss & theft ratio of 8.8%, for US$258.5mn. Finally, Limak Insaat won the privatization tender for the Uludag electricity distribution grid, which encompasses around 2.28mn subscribers in the Balikesir, Bursa, Canakkale and Yalova regions, with a loss and theft ratio of just 6%, for US$940mn. Again, these deals are pending for approval at privatization supreme board.

The remaining 7 electricity distribution regions will be privatized in two bundles

The remaining seven electricity distribution regions will be privatized in two bundles. The largest regions, which will attract both local and foreign interest, would be the distribution grids for Istanbul's Anatolian side (AYEDAS), Istanbul's European side (Bogazici), Adana-Mersin (Toroslar) and Izmir (Gediz) in our view. Note that if Aras deal is not approved, there may be another tender to privatize the Aras electricity distribution grid.

Bogazici, Gediz, Trakya and Dicle electricity distribution grids on the privatization agenda. The deadline to apply for pre-qualification was announced as May 4, 2010. The Bogazici electricity distribution region covers the European side of Istanbul, with 3.8mn subscribers with a loss/theft ratio of 11%; the Gediz electricity distribution region has 2.3mn subscribers with a loss/theft ratio of 6.3%, Trakya electricity distribution region has 760,000 subscribers with a loss/theft ratio of 7% and finally the Dicle electricity distribution region, in the South East of the country, has 1mn subscribers and a loss/theft ratio of 64.2% - among the highest in Turkey. It was also stated that the privatization tenders of the three electricity distribution regions, AYEDAS (Anatolian side of Istanbul), Toroslar, Akdeniz were expected to be completed by the middle of 2010.

Privatization methodology

The Transfer of Operating Rights (¨TOR¨) backed Share Sale Model (¨TSS Model¨) was applied as the privatization method in all tenders. In this method, the investor becomes the owner of the shares of the distribution company, and holds a unique license for the distribution of electricity in the designated region. However, TEDAS maintains the ownership of the assets essential for the operation of the network. The Energy Market Regulatory Authority will grant the winning parties distribution and retail sales licenses for a period of 30 years, according to a TOR agreement with TEDAS.

The "National tariff" will be implemented by 2013

Pricing mechanism

End user tariffs have already been set by EMRA for the first 5 years (transition period) of operation. The transition period, which is set as five years from 2006 to 2010, serves as the transition period to a fully cost based tariff structure. EMRA had determined the tariffs and revenue requirements for each distribution company for the transition period. However, in accordance with Law No: 5784, the transition period has been extended until 2013 under the "national tariff" scheme, whereby EMRA will implement a tariff equalization scheme to transfer revenues across the regions in order to prevent revenue imbalances. Although EMRA has determined the tariff scheme for 2006-2010, the national tariff scheme has not yet been finalized.

Figure 132: Turkish Electricity Sector: Latest Disco Deals

Distribution Company	Buy Side	Date	Privatization Value (USD)	# of subs.	Consumption (MWh)	Value/ Subs.	Value / Cons.
Başkent EDAŞ	Sabancı - Verbund	July. 08	1,225.00	2,951,380	9,965,603	415	123
Sakarya EDAŞ	Akkök-Cez	July. 08	600.00	1,273,360	7,889,941	471	76
Meram EDAŞ	Alarko	Sep.08	440.00	1,482,736	5,426,290	297	81
Aras EDAŞ	Kiler	Sep.08	128.50	704,555	1,494,925	182	86
Çoruh EDAŞ	Aksa	Nov.09	227.00	988,603	2,267,747	230	100
Osmangazi EDAŞ	Eti Gümüş	Nov.09	485.00	1,266,966	5,041,687	383	96
Yeşilırmak EDAŞ	Çalık Enerji	Nov.09	441.50	1,420,460	4,062,656	311	109
Van Gölü EDAŞ	Aksa	Feb.10	100.10	424,237	1,300,787	236	77
Fırat EDAŞ	Aksa	Feb.10	230.25	682,090	2,032,621	338	113
Çamlıbel EDAŞ	Kolin	Feb.10	258.50	746,002	2,146,361	347	120
Uludağ EDAŞ	Limak	Feb.10	940.00	2,264,748	10,940,535	415	86
Minimum						182	76
Median						338	96
Average						329	97
Maximum						471	123

Source: TEDAS & IS Investment

Figure 133: Turkish Electricity Sector: Electricity Distribution Regions

Source: PA

Distribution Regions

1. Dicle (Diyarbakir, Mardin, Siirt, Sanliurfa, Batman, Sirnak)
2. Van Golu (Bitlis, Hakkari, Mus, Van) -Pending approval at privatization supreme board
3. Aras (Agri, Erzincan, Erzurum, Kars, Bayburt, Ardahan, Igdir)-Pending approval at privatization supreme board
4. Coruh (Artvin, Giresun, Gumushane, Rize, Trabzon)- Pending approval at privatization supreme board
5. Firat (Bingol, Elazig, Malatya, Tunceli)-Pending approval at privatization supreme board
6. Camlibel (Sivas, Tokat, Yozgat)-Pending approval at privatization supreme board
7. Toroslar (Adana, Mersin, Osmaniye, Hatay, Gaziantep, Kilis)
8. Meram (Kirsehir, Nevsehir, Nigde, Aksaray, Konya, Karaman) (Privatized in 2008)
9. Baskent (Ankara, Kirikkale, Zonguldak, Bartin, Karabuk, Cankiri, Kastamonu) (Privatized in 2008)
10. Akdeniz (Antalya, Burdur, Isparta)
11. Gediz (İzmir, Manisa)
12. Uludag (Balikesir, Bursa, Canakkale, Yalova)- Pending approval by privatization supreme board
13. Trakya (Edirne, Kirklareli, Tekirdag)
14. Istanbul Province Anatolian Side
15. Sakarya (Sakarya, Bolu, Duzce, Kocaeli)(Privatized in 2008)
16. Osmangazi (Afyon, Bilecik, Eskisehir, Kutahya, Usak)-Pending approval by privatization supreme board
17. Istanbul Province European Side
18. Kayseri (Privatised in 1990)
19. Menderes (Aydin, Denizli, Mugla) (Privatized in 2008)
20. Goksu (Adiyaman, Kahramanmaras)- Has been excluded from the privatization program in 2009
21. Yesilirmak (Amasya, Corum, Ordu, Samsun, Sinop)- Pending for approval by privatization supreme board

Nuclear power plant tenders

In February 2008, the government announced that it had decided to build Turkey's first nuclear power plant with a total capacity of 4,000MW (+/- 25%), at Akkuyu, Mersin on the Mediterranean coast. TAEK (Turkish Atomic Energy Authority) has already issued specifications for the plant and TETAS will purchase the electricity generated at the nuclear power plant over a 15 year period. Although nuclear power stirs controversy, the government is keen to turn to nuclear energy to meet Turkey's growing demand for electricity. However, building a nuclear power plant takes 8 to 10 years, and is therefore not a short term solution. The project is estimated to cost between US$10-15bn.

The tender for the construction of the nuclear power plant was held in September 2008 but attracted little in the way of interest because the government did not offer any guarantees apart from the purchase of electricity, and there were therefore some concerns regarding the financing of the project. The Russian-Turkish JSC Atomstroyexport-JSC Inter Rao Ues-Park Teknik joint venture was the only bidder in the tender. The Turkish-Russian JV had offered a price of 21.16 cents per kilowatt-hour (kWh). The consortium later lowered its price offer.

Turkey plans to build two nuclear power plants, one in Sinop and the other in Mersin

In November 2009, the Council of State decreed a delay to a couple of articles related to Turkey's regulation on nuclear power plant construction. These articles are related to the nomination of the location for the nuclear power plant and the methods of calculating electricity prices. As a result, the pending nuclear power plant tender was cancelled.

Based on the latest statements, the government plans to build two nuclear power plants, one in Sinop on the Black Sea coast, in the north of Turkey, with the other in Mersin on Turkey's southern coast. EUAS (the State-run generation company) signed a preliminary cooperation agreement with South Korea's KEPCO regarding the construction of a 5,600 MW nuclear power plant in the city of Sinop. An intergovernmental agreement on the nuclear power plant will be signed if the technical studies are finalized successfully. ENKA may cooperate with KEPCO to construct the nuclear plant in Sinop but no final decision has yet been taken. Note that KEPCO conditioned that the Turkish stake should hold a 25% in the Sinop project. On the other hand, Turkey and Russia signed a joint declaration on cooperation in building Turkey's first nuclear power plant in Mersin in January 2010. If both sides accept the conditions, construction is expected to get underway in November this year. Siemens will play a prominent role in the construction, with a share of 15-20%, by providing technical support whereas a Turkish contractor will have a 25-30% share. The nuclear fuel will be obtained from Russia.

Renewable Energy Law

In a bid to promote investments in renewable energy, the government enacted a Renewable Energy Law, which provides a purchasing guarantee for 10 years at a price (currently 5.5 € cent/kWh) to be determined by EMRA.

The "New" Renewable Energy Law is awaiting Parliamentary approval

According to a new incentive package to be ratified by Parliament, the purchase guarantee prices for electricity generated by renewable energy resources will be raised to 7 € cent/kWh for hydroelectric and 8 € cent/kWh for wind farms for a period of 10 years. There will be additional incentives for investments using domestically procured machinery, which will raise the government purchasing guarantee to 8.8 € cent/kWh for hydro and 10.9 € cent/kWh for wind farms.

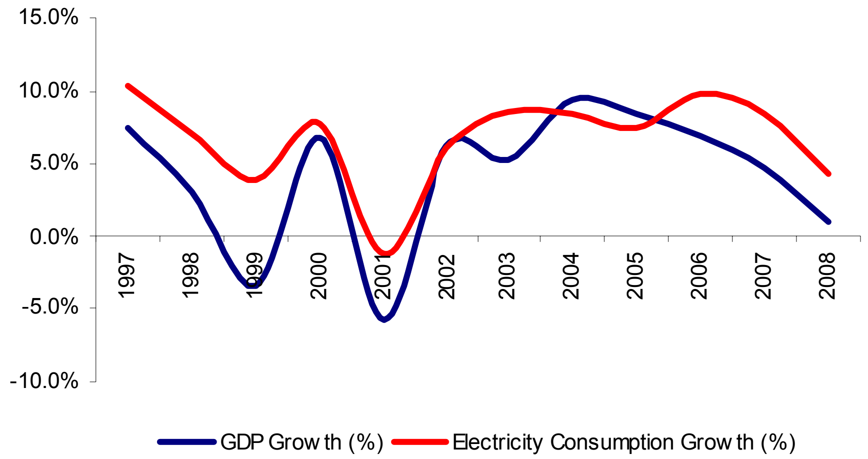
The draft law was expected to be ratified by Parliament before the parliamentary recess in 2009, but was then postponed to a later date.

Electricity Demand

Growth in demand for electricity in Turkey has far outstripped GDP growth over the past decades, stimulated by economic growth and rising living standards, and there is substantial room for further growth. Domestic demand for electricity grew at a CAGR of 6% between 1999-2008, proving resilient to downturns in the economy. This rate of demand growth has significantly exceeded the growth rates seen in other major Turkish industries and, for the most part, massively surpassed the growth in national income during growth years, while holding up relatively well during periods of financial crisis; in 2001, for example, Turkey's GDP contracted by 5.7%, while demand for electricity dipped by a mere 1.2%.

Figure 134: Electricity Net Consumption Growth vs GDP Growth

Demand for electricity has outstripped GDP growth in Turkey

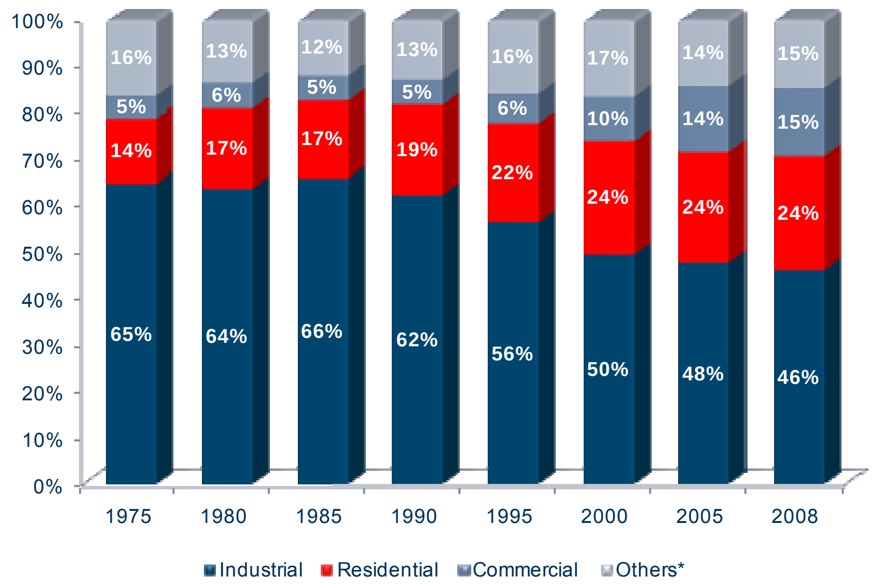


Source: TEIAS

Turkey's totally installed electricity generation stood at 44,556 MW in 2009, marking an increase from the 41,744MW in 2008. Electricity consumption contracted by 2.4% to 193bn kWh in 2009, compared to the 198bn kWh consumed in the previous year. According to a study carried out by TEIAS (the Turkish Electricity Transmission Company) demand is expected to grow by 4.5% in 2010; thus, Turkey is expected to maintain its vigorous growth in electricity consumption, in parallel with the rise in industrialisation and urbanization. Nevertheless, the industrial segment still accounts for approximately 46% of electricity consumption in Turkey.

In order to meet the growth in demand for electricity, Turkey needs to add an estimated 3,000-4,000 MW of new generation capacity each year through US$3.5bn in annual investment. This would imply an estimated annual growth of 6-8% in installed capacity.

Figure 135: Breakdown of Electricity Consumption

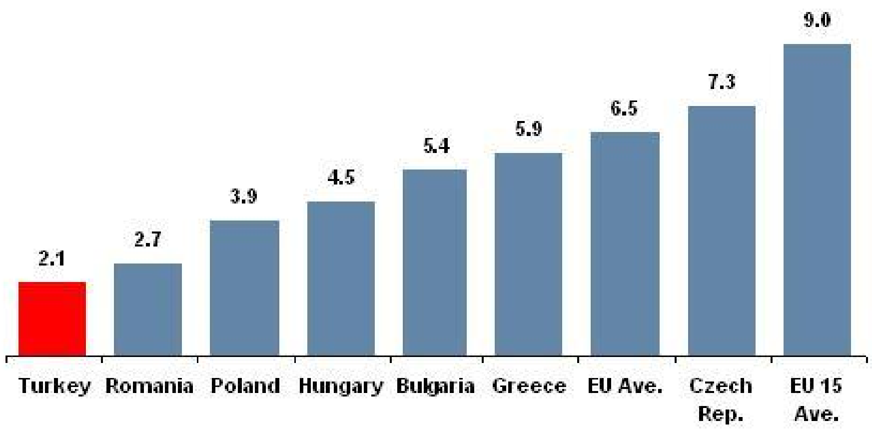


Source: TEDAS, TEIAS

** Electricity used by public institutions, lightening, agricultural irrigation and non profit organizations such as schools and hospitals*

Even after years of strong growth, Turkey's per capita electricity consumption, at 2,090 kWh, remains low compared to the EU average of 6,460 kWh per capita. We expect demand to pick up in line with the recovery in the global economic environment.

Figure136: Per-capita Electricity Consumption



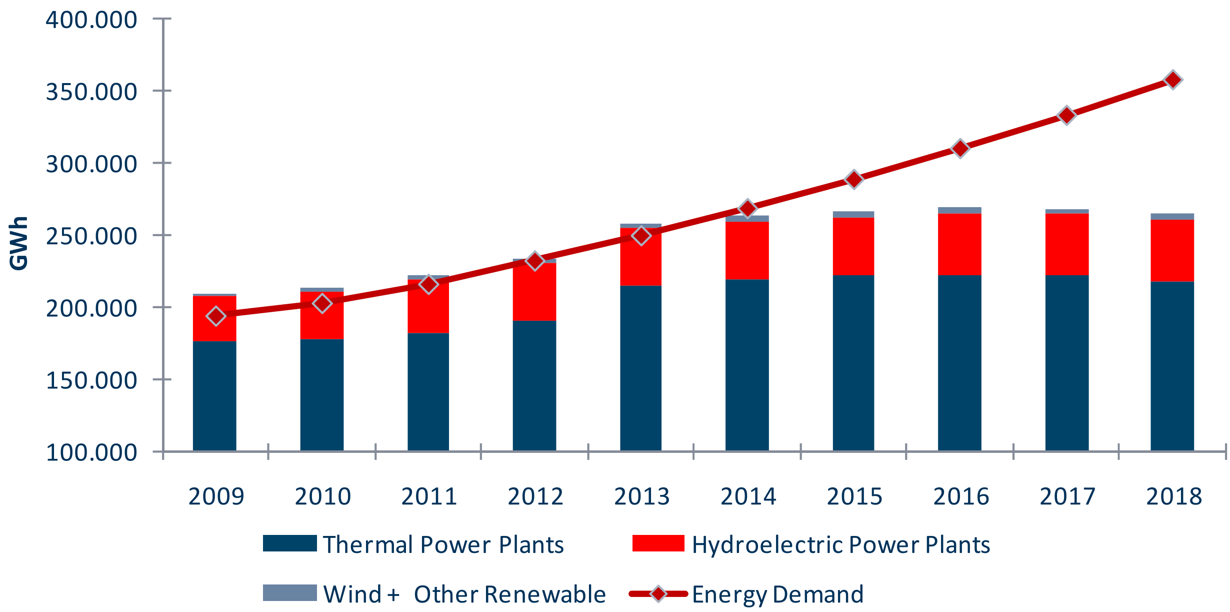
Source: OECD

Demand Scenarios

Turkey is expected to face a national electricity supply shortage by 2014, according to the high demand scenario

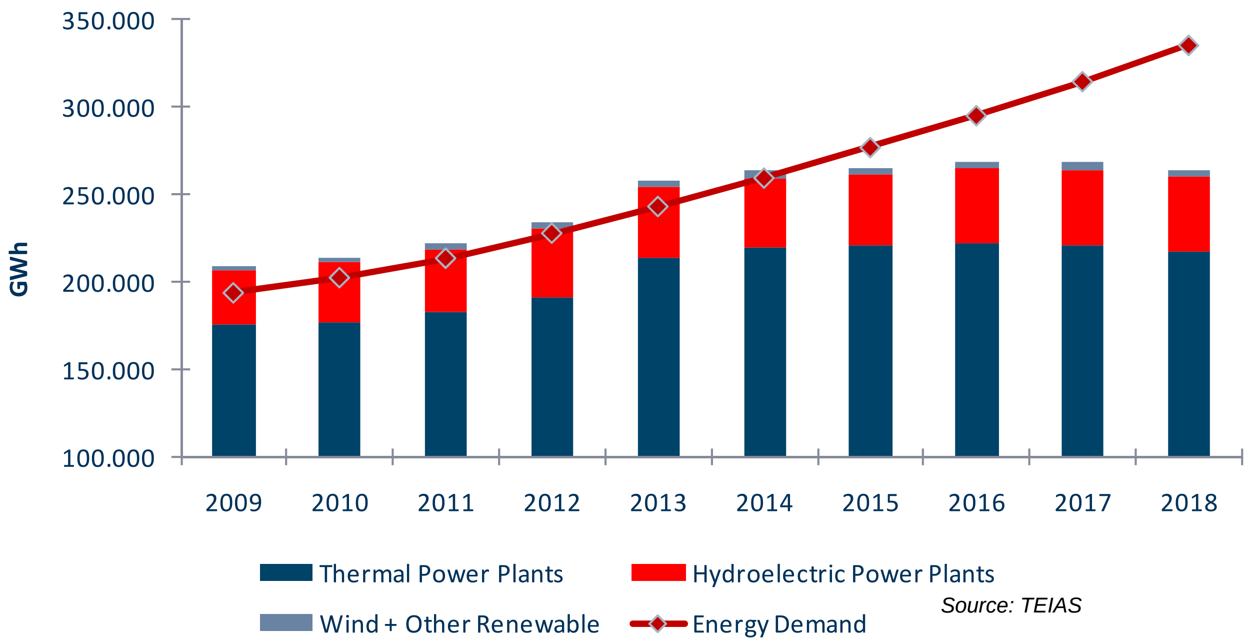
TEIAS projected the needs for additional electricity generation capacity until 2018 under two demand growth scenarios. According to the high demand scenario, demand for electricity is expected to grow at a CAGR of 7.5% between 2011 and 2018. According to the low demand scenario, on the other hand, demand for electricity is expected to grow at a CAGR of 6.7% in the same period. The high demand scenario envisages a national electricity supply shortage by 2014, while the supply shortage may be delayed until 2015 under the low demand scenario.

Figure 137: Firm Generation Capacity (GWh) and Energy Demand Balance –High Demand (Private and state-owned facilities under construction and operational)



Source: TEIAS

Figure 138: Firm Generation Capacity (GWh) and Energy Demand Balance –Low Demand (Private and state-owned facilities under construction and operational)



Source: TEIAS

Privatization of Generation Assets

The government plans to simultaneously privatize generation assets and distribution assets. The state owned EUAS and its subsidiaries supplied 46% of Turkey's total electricity in 2009. The government has kicked off the privatization of generation assets in March 2008, with the privatization tender of Ankara Electricity (ADUAS). Zorlu Energy won the tender with a bid of US$510 mn for the nine ADUAS power generation facilities (7 hydroelectric power plants with a total capacity of 111MW, one 15MW capacity geothermal power plant and one 15MW capacity diesel based power plant). Zorlu Energy later sold ADUAS to Zorlu Holding in June 2009, due to the Zorlu Energy's increasing net debt position.

The privatization of generation assets will be divided into three stages

The privatization of generation assets will be divided into three stages, (i) privatization of river-type hydropower plants, (ii) privatization of large scale thermal power plants in separate tenders, and (iii) privatization of generation assets in portfolios. We expect the tender for the first tranche to be completed in 1H10.

(i) Privatization of river-type hydropower plants

The privatization administration also launched the tender process for 52 river-type hydropower plants in December 2009. The 52 HEPPs for sale have a relatively small capacity (less than 150 MW in total). The privatization administration announced that 615 investors had placed bids for the 52 hydropower plants. The tender is expected to be finalized by the end of 1H10.

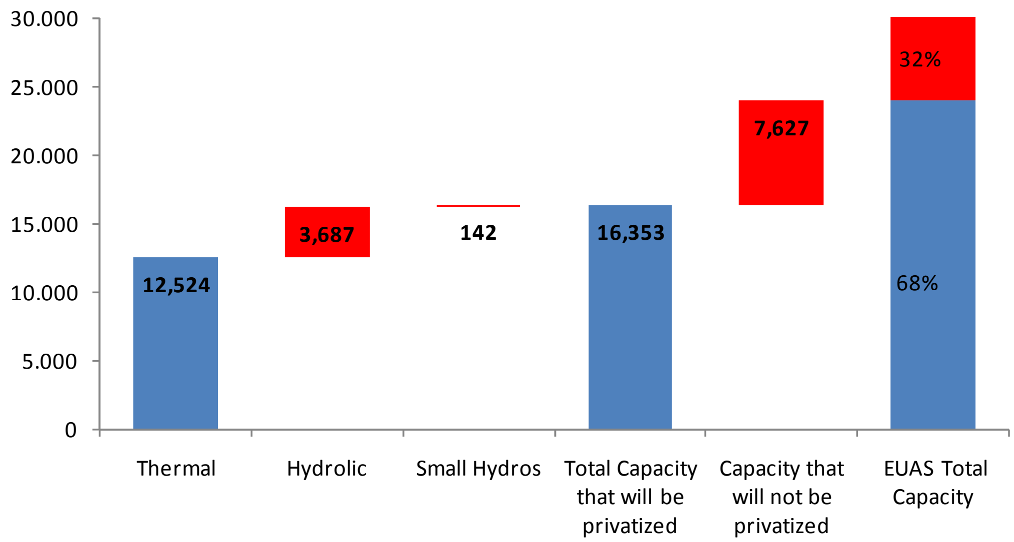
(ii) Privatization of large scale thermal power plants in separate tenders

The PA plans to privatize four large scale thermal plants; Hamitabat (1120MW), Soma A-B (1034MW), Can (320MW) and Seyitomer (600MW) in separate tenders. The first tender is expected to get underway with the privatization of Hamitabat, a natural gas fired power plant.

(iii) Privatization of generation assets in portfolios

The PA will privatize the remaining generation assets in nine different portfolios, each with a minimum stipulated capacity of 356MW. According to the current strategy, coal fired power plants will be privatized along with their coal reserves, and the government will shortly draft legislation on the issue.

Figure 139: Upcoming GENCO Privatizations



Source: PA & IS Investment

Figure 140 : Information on the Portfolios

Portfolio #	Name of the power plant	Type	Capacity (MW)
1	Elbistan A	Lignite	1,355
	Elbistan B	Lignite	1,440
2	Ambarli Natural Gas	Natural gas	1,351
	Ambarli Fuel-Oil	Fuel-Oil	630
3	Aliaga	Natural gas	180
	Kangal	Lignite	457
	Tuncbilek	Lignite	365
	Catalagzi	Coal	300
4	Bursa Natural Gas	Natural gas	1,432
	Orhaneli	Lignite	210
	Gokcekaya	Hydroelectric	278
	Sariyar	Hydroelectric	160
	Yenice	Hydroelectric	38
5	Kemerkoy	Lignite	630
	Yatagan	Lignite	630
	Yenikoy	Lignite	420
	Demirkopru	Hydroelectric	69
	Adiguzel	Hydroelectric	62
	Kemer	Hydroelectric	48
	Karacaoren-1	Hydroelectric	32
	Gezende	Hydroelectric	159
6	Altinkaya	Hydroelectric	703
	Derbent	Hydroelectric	56
	Hirfanli	Hydroelectric	128
	Kesikkopru	Hydroelectric	76
	Kapulukaya	Hydroelectric	54
7	Hasan ugurlu	Hydroelectric	500
	Suat Ugurlu	Hydroelectric	69
	Almus	Hydroelectric	27
	Kokluce	Hydroelectric	90
	Kilickaya	Hydroelectric	120
	Camligoze	Hydroelectric	32
8	Catalan	Hydroelectric	169
	Aslantas	Hydroelectric	138
	Menzelet	Hydroelectric	124
	Kisik	Hydroelectric	189
	Karkamis	Hydroelectric	10
9	Dogankent	Hydroelectric	75
	Kurtun	Hydroelectric	85
	Tortum	Hydroelectric	26
	Ozluce	Hydroelectric	170

Source: Privatization Administration

Generation

The state's domination of the sector is still very much in evidence across the electricity value chain. Last year, EUAS accounted for 54% of the total installed generation capacity (44,556 MW) in Turkey and generated 46% of the electricity produced nationwide in 2009.

Figure 141 : Power Producers by Generation Type

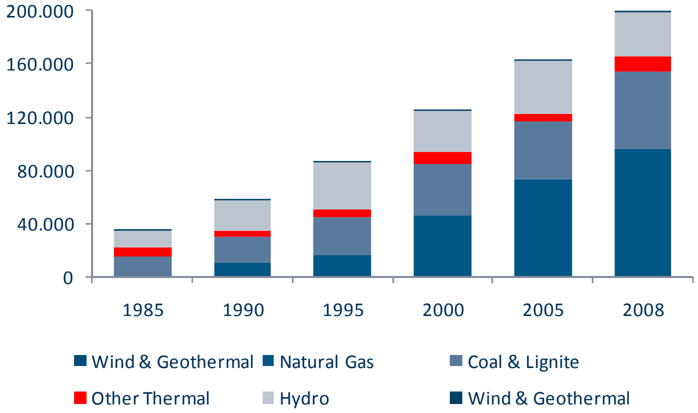
Producer Type	2006	2007	2008
EUAS	19,882	20,041	20,147
EUAS and its subsidiaries	3,834	3,834	3,834
Mobile Pow er Plants	725	263	263
Production Companies	11,696	12,313	13,390
Autoproducers + TOOR	4,428	4,385	4,183
TOTAL	**40,565**	**40,836**	**41,817**

Source: TEIAS

Turkey still has unused potential in hydro, domestic coal, wind and geothermal power. In fact, Turkey is currently using only one quarter of its hydro and lignite potential, with a high dependency on natural gas, raising concerns related to pricing and availability. Turkey encountered with an energy crisis after Iran cut off the natural gas flow on January 7, while Russia reduced delivery through the Blue Stream Pipeline. Turkey's state oil pipeline company, BOTAS met the natural gas shortage through imports of liquefied natural gas from Algeria and Nigeria.

Natural gas based power plants accounted for 49% of the total power generation in 2009. Accordingly, natural gas prices are the main driver of electricity generation costs and DUY prices. The increase in crude oil prices over the past year has been pushing natural gas prices higher. The government introduced an automatic pricing system for the natural gas prices, similar to the mechanism introduced for electricity in July 2008. According to the new mechanism, natural gas prices are adjusted in three month intervals and utility prices are imposed on the end-user tariff. Accordingly, the state-owned distribution company, BOTAS, raised natural gas tariffs by 16.88% for residential users and 18.77% for industrial users with effect from August 1, 2008, following a 7.4% increase in residential tariffs and an 8.3% upward adjustment for industrial users at the beginning of June. The next adjustments were performed in October (5%) and November (23%). However, the continued low levels of oil prices triggered a downward adjustment of 17% for residential users and 18% for industrial users in February 2009, followed by another cut of 25% (for residential users) and 26% (for industrial users) in May 2009. We expect average natural gas prices to rise by 14% YoY in 2010 mostly due to the increase in crude oil prices.

Figure 142 : Breakdown of Gross Generation by Energy Sources

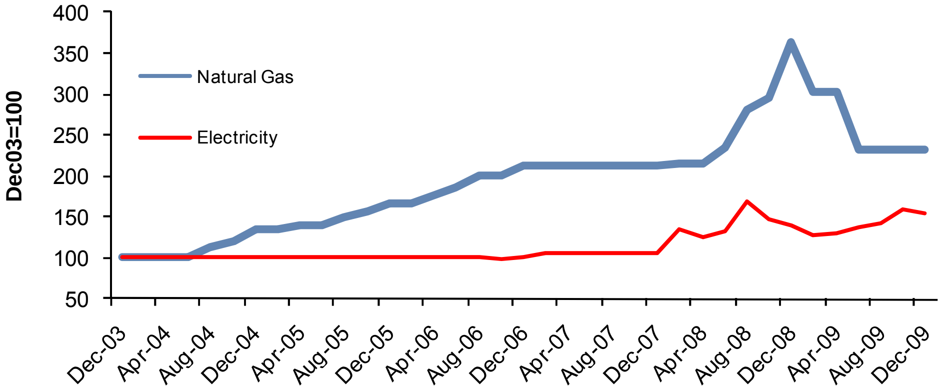


Source: TEIAS

Electricity Prices

In line with the government's policy to bring inflation down, electricity prices were kept constant for several years from 2003, resulting in unsustainable losses for thermal power plants. Private sector natural gas plants bore the brunt of this policy as natural gas prices skyrocketed over the same period. Almost 70% of private sector power generation depends on natural gas, and consequently a number of private producers applied to cancel their licences in the summer of 2006.

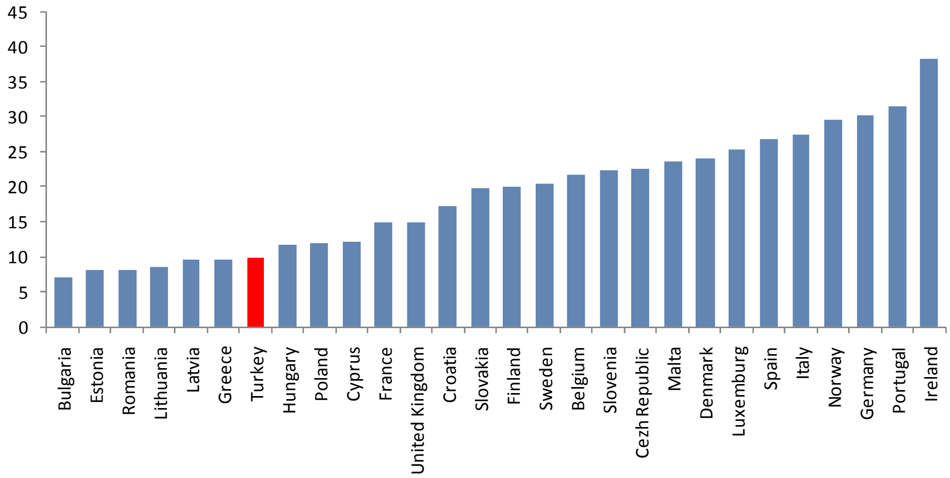
Figure 143 : Natural Gas Prices vs Electricty Prices



Source: BOTAS & TEDAS

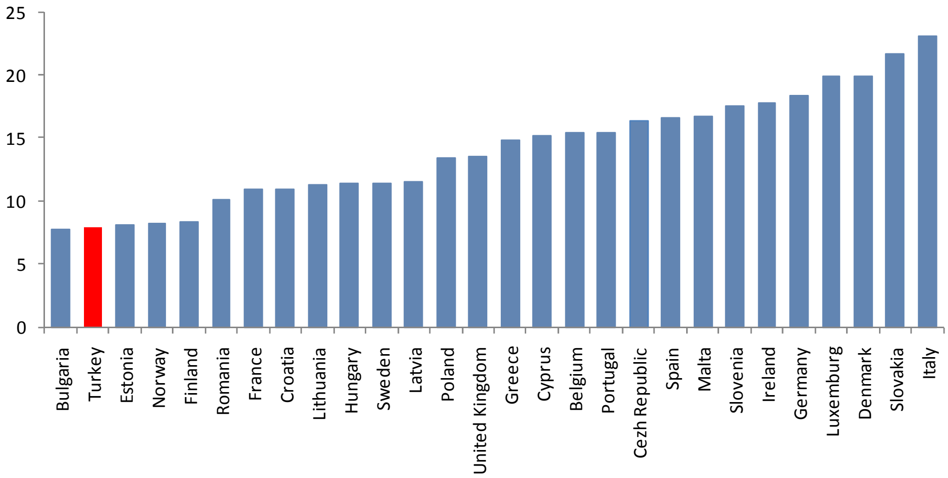
According to Eurostat figures for 1H09, Turkey's electricity tariffs for both industrial and residential users remain among the lowest in Europe. Although the full liberalization of the electricity market is likely to result in a decline in electricity tariffs in the long run, the relatively low level of electricity prices suggests that there is still room for an upward adjustment in electricity tariffs in Turkey.

Figure 144 : Residential Tariffs in Europe (exc. VAT, inc. all other taxes) Eurcent/ kWh



Source: Eurostat

Figure 145 : Industrial Tariffs in Europe (exc. VAT, inc. all other taxes) Eurcent/kWh



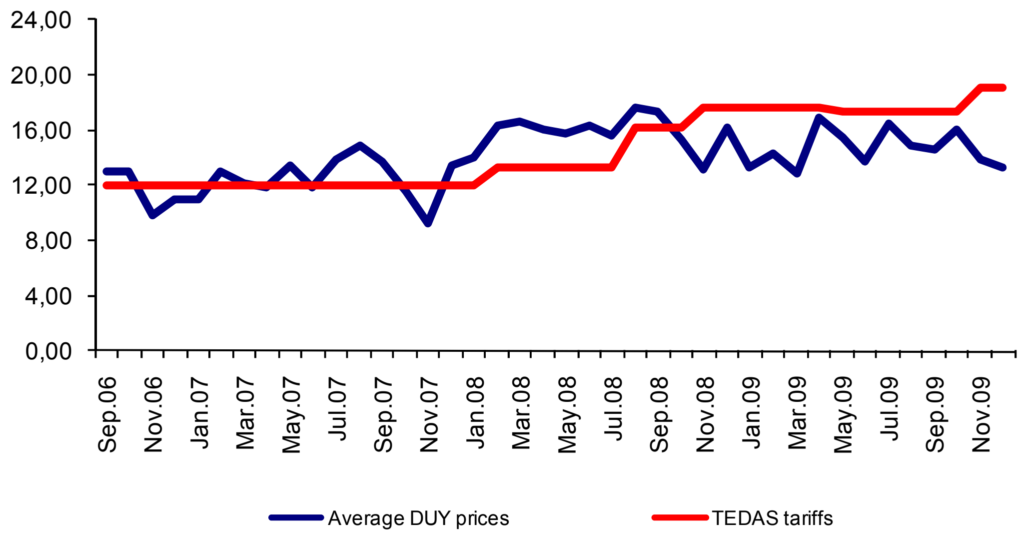
Source: Eurostat

TEDAS prices

A cost based automatic pricing mechanism has been applied for TEDAS tariffs since July 2008

In view of TEDAS' increased debt burden, the government raised residential and industrial electricity tariffs by 19% and 12% respectively in January 2008. This had been the first adjustment since 2003. The government implemented a cost based automatic pricing system aimed an encouraging private investment ahead of the planned privatizations in the sector, which entered effect on July 1, 2008. Accordingly, EMRA (the Energy Market Regulatory Agency) approved a 22% hike in electricity tariffs for industrial users and a 21% increase in the residential tariff; this was followed by a 9.3% upward adjustment in October 2008, thus resulting in a total 48% YoY increase in electricity tariffs in 2008. The new mechanism takes into account the changes in natural gas prices, inflation and exchange rates, and tariffs are adjusted every three months. In 2009, electricity tariffs were hiked by 9.1% for residential users and by 9.3% for industrial users in October 2009; average TEDAS prices rose by 18% YoY in 2009. We estimate an average TEDAS price of TRY 0.191/kWh in 2010.

Figure 146 : TEDAS Prices vs DUY Prices (TLkr/kWh)



Source: PMUM & TEDAS & IS Investment

DUY prices

Average DUY prices fell to below the TEDAS prices from September 2008, due to the impact of the economic crisis

In view of the electricity shortages, and in a bid to encourage private sector interest in the electricity generation business, the government introduced a balancing and settlement mechanism (DUY) on August 1, 2006 where imbalances in the electricity market would be balanced through accepting bids and offers by market participants such as the public and private power generators, along with wholesale companies and eligible customers. The goal of the system was to create a competitive pricing environment through a spot market for the effective use of resources and efficiency improvements in the sector. DUY prices remained above TEDAS prices until September 2008, when DUY prices fell below the prevailing TEDAS prices due to the decline in demand for electricity.

DUY Market

Turkish electricity market structure consists of a three layer system: (i) bilateral contracts market between distribution companies and eligible customers (wholesalers and generators), (ii) the day-ahead market, in which the system operator matches bids and the demand for the day-ahead market from generators, (iii) balancing, which includes real-time balancing of supply and demand.

In the Balancing and Settlement (DUY) mechanism, private power generators, auto producers and EUAS announce their prices on a cost basis and private wholesale companies and eligible customers settle with them on a balanced price. The advantages of selling to the DUY market could be listed as (1) there is no distribution charge, and (2) no TRT fee (a 2% fee charged to electricity sales to support national broadcasting company) in sales to the DUY system.

How the DUY system works

When the DUY market was initiated back in August 2006, the National Load Dispatch Center (NLDC), which works under the body of TEIAS, was responsible for real-time balancing of electricity demand and supply. The market participants notified NLDC of their price offers on a monthly basis. Thus, NLDC was already aware of the prices offered by companies on a day-by-day and hour-by-hour basis. TEIAS lined up offers from the lowest to highest, and dictated the companies about their electricity generation. At the end of the month, the Market Financial Settlement Center (MFSC), which operated under TEIAS, calculated amounts payable or receivable by legal entities operating in the market, based on differences between actual purchases and sales as a result of the real time physical balancing of energy supply and demand by NLDC.

However, the DUY system was changed into “day ahead planning” in December 2009. Under the new system, market actions take place under the coordination of the Market Operator in order to balance the forecasted hourly demand for the following day, one day in advance. This day ahead planning will continue until day ahead market is launched in 2011. The main purpose of day ahead market and day ahead balancing is ensure the balancing of supply and demand in the system one day in advance. Distribution companies are targeted to be brought into the system by 2011; hence, day-ahead prices will be calculated based on supply and demand dynamics. Also, real-time balancing include the activities performed by the System Operator to provide the balance of active electricity supply and demand on real-time basis. The new system requires more detailed forecasts of production from market participants. Currently, sector specialists are experiencing difficulty due to the limitations in the technical infrastructure of the government held generation, transmission and distribution assets, and thus face difficulty in producing accurate forecasts for consumption and generation on a daily basis.

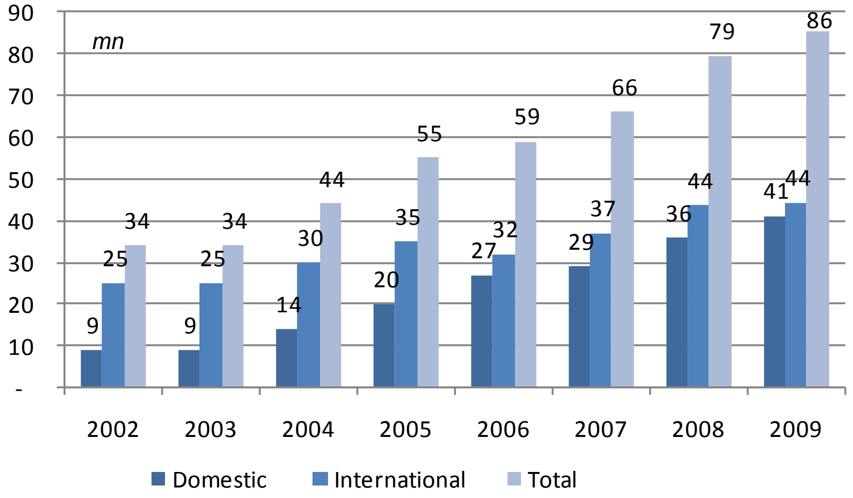
Main differences between the new DUY system and the older version:

Old Version	New Version
TEIAS was responsible from forecasting the demand	TEDAS and the distribution companies are responsible from forecasting demand
Market participants were notifying their offer prices twice in a month.	Market participants notify their offer prices on a hourly basis every day.
The consumption forecasts were known by the market	The consumption forecast is not known by the market participants
There was a single system balancing price calculated at the end of each month	Two different prices: (i) day ahead prices and real-time balancing price are calculated on a daily basis

VII.2. Aviation Sector

Turkey's airline sector grew at an impressive pace after the liberalization in 2003. With a 17% CAGR in passenger numbers between 2003-2009, Turkey is one of the fastest growing countries in passenger air transportation. Liberalization of the domestic market in 2003, impressive increase in tourist arrivals, and steady economic growth have all been important factors fostering the growth in air transportation in Turkey. While liberalization opened up the market into competition, lowered fares and increased the propensity of Turkish people to travel via air, being one of the top tourism destinations contributed very much to air traffic growth given that 70% of the international tourists come to Turkey via air. Note that people's propensity to travel is positively correlated with the per capita income levels in the country.

Figure 147 : Passenger Traffic in Turkey



Source: SAA

Despite this considerable pace of growth, the share of air transportation in total passenger and freight carried is still low. According to a research conducted by the State Planning Organization in 2007, air transportation constituted 10% of the total passenger traffic in Turkey versus 30% in European countries, pointing to a deeply under-penetrated air transportation market. Considering narrowing price spread between air transportation and alternative modes of transportation, depilated railways and over-crowded roads and the time advantages air travel offers, we expect a switch in favor of air in the forthcoming years parallel to the expected sustainable economic growth of 5% after 2011.

Route	Average bus tariff (TL)	Minimum airline tariff (TL, taxes included)	Bus travel duration (HH:MM)	Air travel duration (HH:MM)
Istanbul-Adana	66	69	12:30	1:35
Istanbul-Ankara	45	59	5:15	1:05
Istanbul-Izmir	45	69	8:00	1:05
Istanbul-Trabzon	59	59	15:00	1:40
Istanbul-Diyarbakır	75	90	21:00	1:50

Source: Turkish Airlines and coach company websites, as at 2 Apr 2010

Source: Is Investment

Tourism is a major growth driver..

Taking into account that around 70% of international tourists come to Turkey via airway, tourism is one of main growth drivers for air transportation in the country. Turkey is an attractive tourism destination for international tourists, ranking in the 8th and 9th positions in the UNWTO Top Tourism Destinations List in 2008 in terms of international tourist arrivals (25mn to Turkey) and tourism revenues, respectively. Despite its cheering ranking, Turkey is yet a high-growth market with surging health, culture and eco tourism that UNWTO pointed Turkey as the fastest growing country in tourism among the OECD countries. Moreover soaring pollution in Western Mediterranean coasts pushes up the interest for Eastern Mediterranean.

Top 10 Tourism Destinations in terms of number of international tourist arrivals (mn)	2008	2007	YoY
1 France	79.3	81.9	-3%
2 USA	58.0	56.0	4%
3 Spain	57.3	58.7	-2%
4 China	53.0	54.7	-3%
5 Italy	42.7	43.7	-2%
6 UK	30.2	30.9	-2%
7 Ukraine	25.4	23.1	10%
8 Turkey	**25.0**	**22.2**	**13%**
9 Germany	24.9	24.4	2%
10 Mexico	22.6	21.4	6%

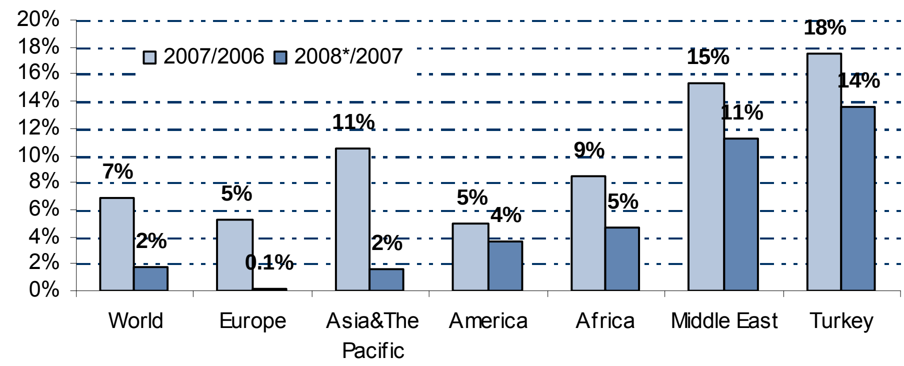
Source: World Tourism Organisation (UNWTO)

Top 10 Tourism Destinations in terms of number of international tourism receipts (US$bn)	2008	2007	YoY
1 US	110.1	96.7	14%
2 Spain	61.6	57.6	7%
3 France	55.6	54.3	2%
4 Italy	45.7	42.7	7%
5 China	40.8	37.2	10%
6 Germany	40.0	36.0	11%
7 UK	36.0	38.6	-7%
8 Australia	24.7	22.3	11%
9 Turkey	**22.0**	**18.5**	**19%**
10 Austria	21.8	18.9	15%

Source: World Tourism Organisation (UNWTO)

Figure 148 : International Tourist Arrival

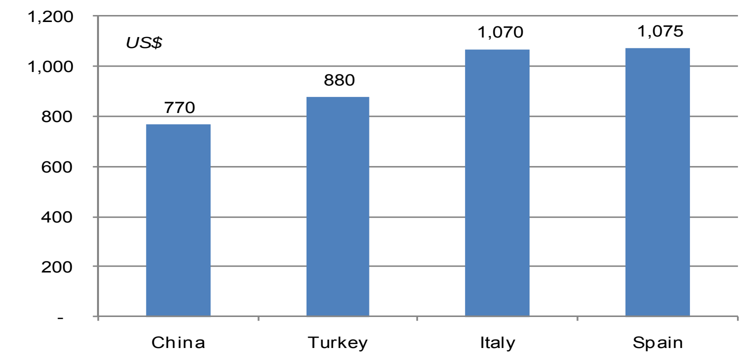
Year-on-Year International Tourist Arrival Growth



Source: UNWTO

Turkey's tourism revenues continued to grow in 2008. Although 50% of the tourist arrivals to Turkey originate from the EU countries and tourism has undergone a drastic decline due to global slowdown, tourism growth in Turkey remained intact in 2008 with international arrivals growing by 13% YoY to 25 mn, bringing the international tourism revenues to US$22bn. Receipt per international tourist increased 6% YoY to US$880 for Turkey in 2008. We believe the main reasons for uninterrupted tourism growth in Turkey are Turkish citizens living in other countries, mainly in the EU, and being a cheaper alternative over European destinations. In fact, Turkish citizens residing abroad constituted around 26% of the international tourist arrivals in 2008. Turkish tourism concentrated in full-package tours which are relatively low-priced, i.e. 15% lower, vis-à-vis the tariffs in alternative destinations, becoming more important now given the squeeze in family budgets for vacation.

Figure 149 : Receipt per International Tourist (2008)



Source: UNWTO

Figure 150 : Airports in Turkey

Source: SAA

There are 45 civil and active airports in Turkey, while Istanbul is the only city with 2 airports. Other than TAV, existing airport operators are the IFC (JV between Fraport and Turkish IC Investment) group in Antalya, and ISG (Turkish Limak, Indian, Malaysian venture) in Sabiha Gokcen, while the majority of the remaining are operated by the Turkish state. In 2008, the operating rights of Sabiha Gokcen airport was taken over by ISG. According to ISG, S.Gokcen will reach 10mn pax at the end of 2010.

Figure 151: Number of Passengers

Number of Passengers (mn)	2008 Domestic	2008 Int'l	2008 Total	2009 Domestic	2009 Int'l	2009 Total
TAV Turkey total	**15.9**	**20.0**	**35.9**	**16.4**	**21.2**	**37.6**
Istanbul Ataturk	11.5	17.1	28.6	11.4	18.4	29.8
Ankara Esenboga	4.4	1.2	5.7	5.0	1.1	6.1
Izmir A.Menderes	-	1.7	1.7	-	1.7	1.7
Izmir A.Menderes	3.8	-	-	4.5	-	4.5
Antalya	2.6	16.2	18.8	3.1	15.2	18.3
Sabiha Gokcen	2.8	1.5	4.3	4.5	2.0	6.5
Trabzon	1.4	0.1	1.5	1.5	0.1	1.6
Diyarbakir	0.9	0.0	1.0	1.0	0.0	1.1
Bodrum	0.8	1.9	2.7	1.0	1.8	2.8
Gaziantep	0.6	0.1	0.8	0.7	0.1	0.8
Samsun	0.5	0.1	0.6	0.8	0.1	0.9
Dalaman	0.4	2.8	3.2	0.5	2.9	3.3
Other	9.8	0.9	10.7	11.7	0.9	12.6
TURKEY TOTAL	**35.8**	**43.6**	**79.4**	**41.2**	**44.3**	**85.5**

Source: SAA

VII. 3. Turkish Port Sector

Sector Highlights:

The revival of foreign trade movements after the global financial downturn made Turkish ports attractive for the investors again. According to the latest news, both port privatizations and new port investments will accelerate in 2010 and forthcoming years.

Turkish State's share in port market has been gradually decreasing from the year 2003. The share of private sector in the market was 22% in 2003, while this figure reached to 28% in 2009. This trend encourages other private companies to invest in the market and also engage in privatization bids with more confidence.

Foreign trade volume is expected to increase after 2009

Turkey's foreign trade has been increasing at a pace of 23.4% since 2003 and was USD334bn in 2008. However the downturn in economic activity in 2009 caused a decline in foreign trade activity. Thus total imports declined by 30% and exports declined by 23% in FY09 compared to FY08 and total trade volume declined to US$243bn.

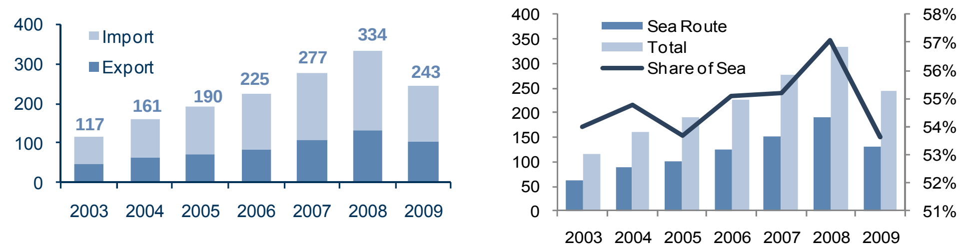
Total foreign trade volume is expected to increase by 10% in 2010 compared to 2009

Sea transportation is the main mean for Turkey's foreign trade

Turkey targets to reach an export level of US$115bn and import level of US$153bn in 2010 which equals to 10% increase in total trade volume compared to 2009. Although it is an early indicator, foreign trade activities started 2010 positively with a total volume of US$39.3bn as of 2M10 which is 13,5% higher than 2M09 figure of US$34.7bn. When it is considered that 54% of the total foreign trade between the years of 2003 and 2009 was handled through sea transportation, the increase in foreign trading activities stemming from the recovery after global downturn is expected to affect port market favorably in this year.

Figure 152 : Foreign Trade in Turkey between 2002-2009

Turkish port market has a significant growth potential in conformity with the trade volume projections



Source: Turkstat

Current port capacity is not sufficient to meet the total projected demand of 2023

Turkey also aims to attain an export level of US$500 bn in 2023; at the centenary of foundation of Turkish Republic. With a parallel increase in import level will lead a foreign trade volume exceeding US$1,000 bn at that year. To achieve this ambitious goal, the authorities claim that Turkey's current port capacity should be increased to at least four times of its current level. Therefore, the investors seeing this significant growth potential prepare themselves for enterprising in port market.

New investments in the port market have been accelerated with the start of year 2010

Latest Market Developments

- Petkim thinks of transferring its majority stake in Aliaga port facilities to focus on its core business. It is anticipated that currently there are 10 candidates negotiating with the company for the takeover of Petkim's Aliaga port.
- At 29th March 2010, Global Investment Holding announced its purchase of the remaining shares of 60% in Antalya Port.
- Arkas increased the capacity of the Ambarli Port to 1.8mn TEUs with a US$300mn investment. Borusan Port increased its capacity to 400k TEUs and will be able to carry 250k vehicles with US$90m investment. The company also targets to make an additional investment of US$100m in the near future.
- Cey Group finalized the privatization of Samsun Port with a deal value of US$125.2 mn.
- One of the world's biggest ship-owner company, Mediterranean Shipping Company, plans to build a port with a capacity of 500k TEUs in Tekirdağ which will start to operate in 2013.
- After the Turkish Courts' cancellation decision of the privatization of Iskenderun and Izmır Ports, Akfen Holding and Celebi Holding are planning to re-bid for the takeover of related ports respectively. The privatization of Derince and Bandirma ports were also approved by the courts and Turkerler Group and Celebi Group were invited to finalise their bids for the respective ports.

Port Traffic in Turkey and MIP's Share

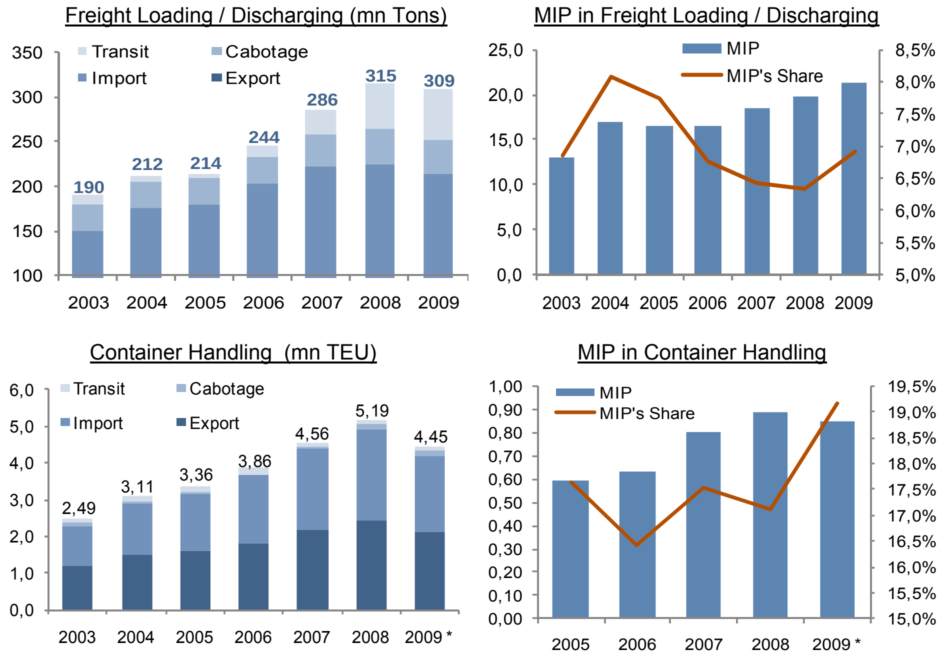
MIP acquired 6.9% share in total freight loading & discharging and 19.2% share in container handling in 2009

Total freight handling has been increasing steadily between 2002 - 2008. The downturn in the global economy over the past year caused this picture to change a little bit. Total freight loading/discharging in 2009 in the sector was 309 million tons. MIP's share out of this figure was only 21,4 mn tons equaling to a 6.9% share of the sector.

Total container handling on the other hand was estimated as 5.2 million TEUs in 2009 while MIP's share in this figure is 0.85mn TEUs amounting to a 19.2% market share.

Figure 153 : Port Traffic in Turkey and MIP's share

Port Traffic in Turkey and MIP's share in the market



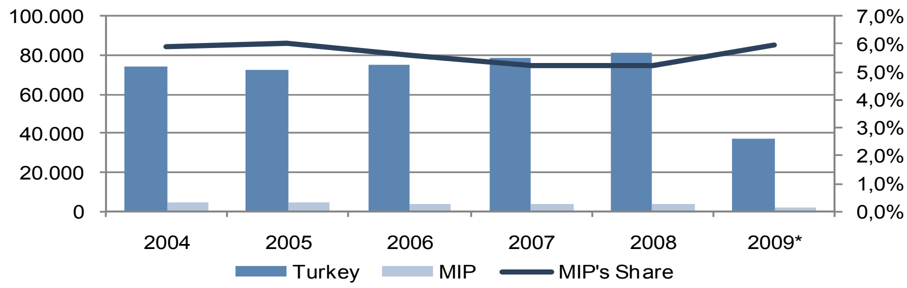
Source: Undersecretariat of Maritime Affairs, Mersin Chamber of Commerce and Industry, Mersin International Port

Number of ships entering into Turkish ports are increasing

Total number of ships arrived to Turkish ports amounted to 80k in 2009 whereas %5,2 of those stopped off in Mersin Port

As an alternative measure of port traffic, it is seen that total number of 80.8k ships have been processed in all Turkish ports as of 2008 whereas Mersin Port acquired a 5,2% share with 4.2k ships in the same year.

Figure 154 : # of ships handled in Turkey and MIP



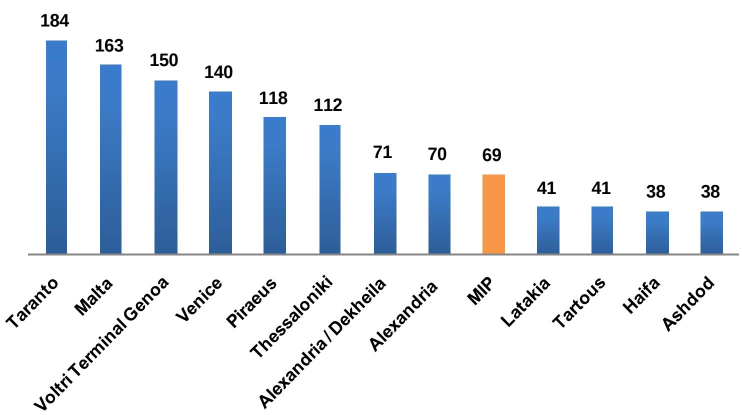
Source: Turkstat

MIP has a competitive advantage in port tariffs among its competitors

MIP applies one of the cheapest tariffs in Mediterranean region

MIP has one of the lowest tariffs in the Eastern Mediterranean. This leaves enough margin for MIP to apply favorable tariff adjustments following the 3rd year of the concession and also a significant competitive advantage against its competitors.

Figure 155 : Tariff Comparison in 2009, US$ per move



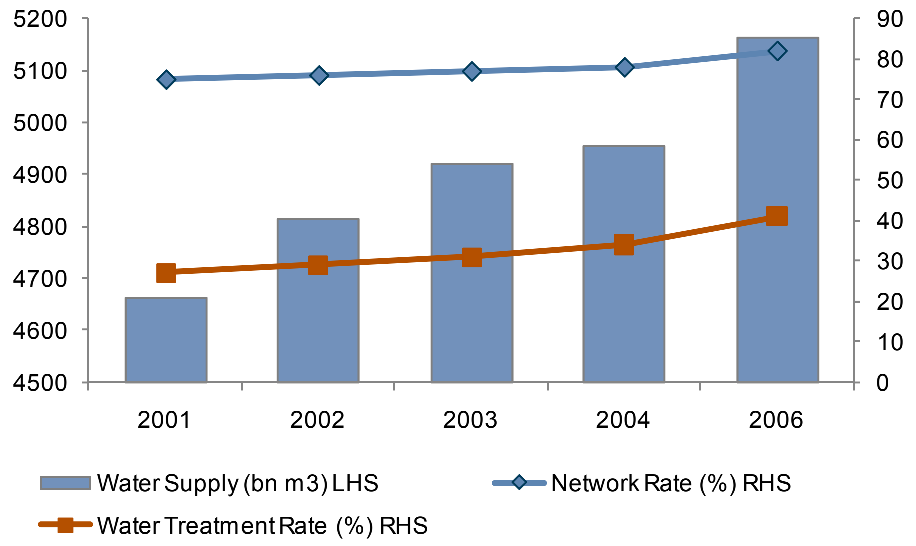
Source: MIP

VII. 4. Water & Waste & Water Utilities

Contrary to the general belief, Turkey is not a country with abundant water resources. The availability of water per capita in Turkey is only about one fifth of that of the countries of North American and Western Europe due to the fact that water resources are not as fully developped as Europe.

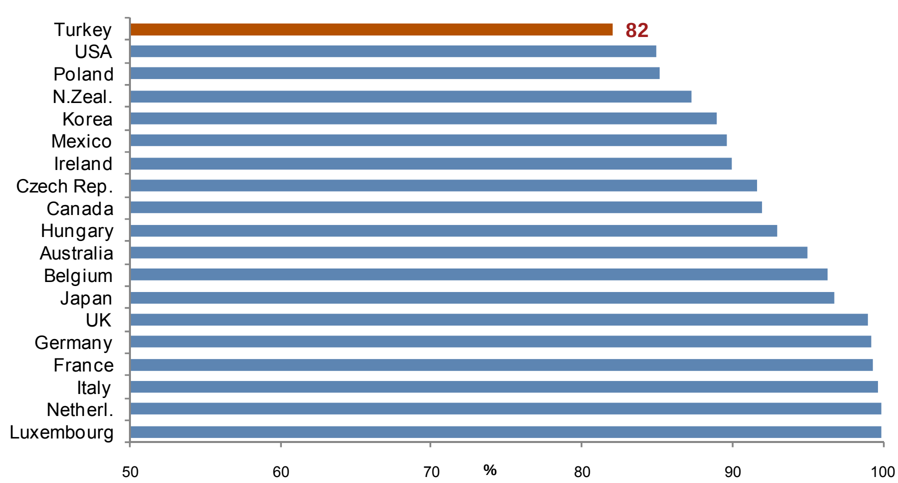
Turkey's average annual runoff is approximately 186 billion m3. Of the this total quantity more than 110 billion cubic meters is available for consumption, including 12 billion cubic meters of groundwater. This implies a per-capita available consumption of 1,700 cubic meters comparing very unfavorably with the countries' (that are counted as rich in water resources) average of 8,000-10,000 cubic meters water per capita per year. Parallel to the scarcity of general water stock, drinking water supply could reach barely above 5.1bn cubic meters per year, while portion of the population connected to a water stated by OECD reports that Turkey is significantly inferior compared to its peer countries in connection to both potable and waste water grids. Although many European country serves drinking water to nearly 100% of its population, 18% of Turkey's popuIation are not involved in public drinking water system.

Figure 156: Drinking Water Supply and Population Served



Source: Turkstat

Figure 157: Population Connected to Drinking Water Systems

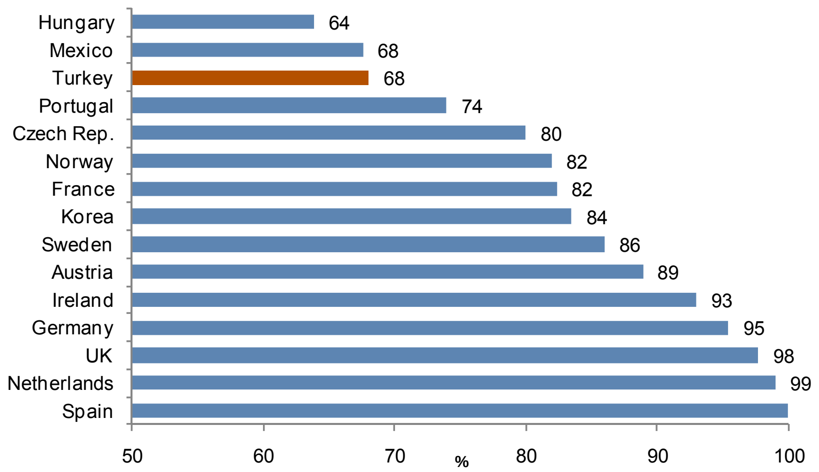


Source: Turkstat, OECD

Water shortages in recent years have become a widespread problem that has been exacerbated by rapid urbanisation, increasing agricultural demand and industrialization. Therefore, the municipalities were obliged to undertake the relevant investments for potable water, waste water and storm water facilities within the contiguous zone they are responsible for. However, water, infrastructure and waste water treatment and disposal, collecting and banishing of solid wastes, storage have all different legislations, and they all require different technologies.

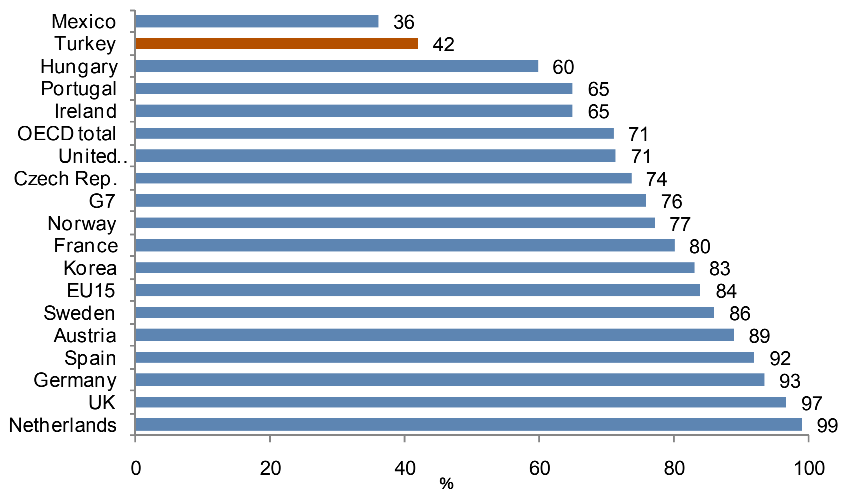
Turkey also lags behind its European counterparts in establishing a sufficient sewerage and waste-water treatment system. Water management system in Turkey should be brought in line with EU water and environment legislation to enable the full implementation of the EU water acquis by the date of Turkey's accession to the EU. EU harmonization have imposed new obligations on Municipalities and they are no longer able to fund these investments due to financial constraints and lack of technical know-how. Despite a gradual increase in number of drinking and waste water treatment plants, it is seen that Turkey should invest in water market more than currently it does to comply with EU standards. According to OECD Environmental Outlook Report of Turkey, 3000 new water treatment plants should be invested in the locations with a population over 2,000 people. It is anticipated that an investment of EUR18bn for sewerage and water treatment facilities should be made between 2007 and 2023 for the desired quality level in water system.

Figure 158: Population Connected to Sewerage Systems



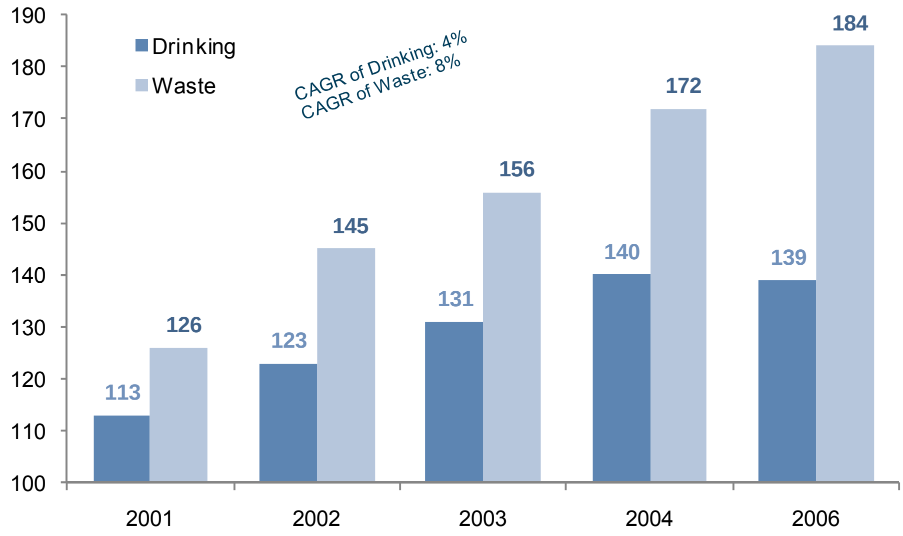
Source: Turkstat, OECD

Figure 159: Population Connected to Waste Water Systems



Source: Turkstat, OECD

Figure 160: Water Treatment Plants in Turkey



Source: Turkstat, OECD

Today, more than 1,500 municipalities have to complete establishment of waste water treatment facilities to comply with international standards. 127 municipalities have waste water treatment facilities but most of them are not working because of qualified personnel need. Under these cicumstances in order to provide the public with healthy potable and waste water services, the Municipalities started to open infrastructure investments to private sector companies via concessions and long term operations. The necessary legal actions to allow this have been taken as well. New municipality concessions promise significant growth for private sector companies. Although market share of private sector's share is below 3% in Turkish water and waste water sector, private sector's penetration is expected to rise in water network system to 10% levels and sewerage network system 7% by 2015 .

Figure 161: Private Sector Penetration in the System

	PSP in 2008		PSP in 2015	
	Water	Sewage	Water	Sewage
UK	88%	90%	94%	96%
France	74%	55%	80%	71%
Greece	44%	37%	46%	45%
Spain	43%	50%	63%	57%
Italy	40%	29%	51%	46%
Algeria	31%	10%	35%	16%
Portugal	25%	23%	56%	51%
Germany	21%	18%	26%	29%
Bulgaria	20%	16%	42%	49%
USA	16%	5%	20%	8%
Isreal	13%	0%	21%	8%
Romania	11%	0%	19%	17%
UAE	3%	33%	38%	47%
Poland	3%	3%	11%	13%
Turkey	2%	3%	10%	7%
Sweden	1%	1%	5%	5%

Source: Pinsent Masons Water Yearbook 2008-2009

VII. 5. REIT Sector

Real Estate Investment Trusts are established in order to invest in real estate and other securities related to real estate. REITs are among the major innovations that emerged in the Turkish financial markets in recent years. They are exempt from corporate and income taxes in Turkey which provides advantages of reinvesting the excess funds in new projects. Moreover, with an amendment in the regulations CMB has smoothened the public offering procedures to encourage more REITs to be IPOed. The most welcomed change in the new communique is the one that lowers the initial listing limit from 49% to 25%.

Major headlines of the capital markets law that arranges REIT sector are:

- REITs are required to hold investment portfolios at least 50% of which consists of real estate properties, rights backed by real estate properties, and real estate development projects. By the same token, no more than 50% of their portfolios may be invested in other types of assets such as capital market instruments or cash assets.
- General-purpose REITs must diversify their portfolios in terms of sector, region and type of property.
- REITs must take into account the appraisal values set by the independent appraisal firms authorized by the Capital Markets Board (CMB) in the leasing and selling properties in their portfolios and in buying them for their portfolios
- REITs are not allowed to undertake the construction works of the projects they develop and hire personnel and employ machinery for such purpose.
- The upper limit for REITs leverage is three times of their NAVs.

There are currently 13 listed REITs traded in ISE universe with a total NAV of TL4.3bn. Of the total NAV ISGYO and SNGYO constitute around 53%. REITs has an average discount rate of 21% to their latest announced NAV versus three years average discount rate of 34%

Figure 162: Listed REITs NAVs

Company	Premium/(Discount) to NAV		MCap (TL mn)	NAV (TL mn)
	Current	Historical		31/12/09
Akmerkez REIT	-10%	-41%	822	910
Alarko REIT	-17%	-38%	212	255
Atakule REIT	-32%	-34%	129	190
Dogus-GE REIT	-22%	-16%	131	167
Is REIT	-40%	-33%	752	1,250
Nurol REIT	-36%	-36%	37	57
Ozderici REIT	-39%	7%	35	17
Pera REIT	-38%	-15%	62	101
Saglam REIT	-21%	-16%	56	71
Sinpas REIT	-7%	-45%	1,008	1,086
Vakif REIT	-22%	-38%	79	101
Y&Y REIT	65%	13%	36	22
Yapi Kredi REIT	-23%	-16%	75	98
Sector Avg. (TL)	**-21%**	**-34%**		

Source: IS Investment