



**İş Gayrimenkul Yatırım Ortaklığı A.Ş.
and TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.
Expert Institution Report about the Merger Transaction**

Executive Summary

Valuation Services | 13 June 2017

Strictly Private and Confidential

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Gökhan Altun

Partner

Office phone: +90 (212) 366 60 27

E-mail: galtun@deloitte.com

Alper Alkan

Manager

Office phone: +90 (212) 366 60 00

E-mail: aalkan@deloitte.com

Important Notice

This document contains an English translation of the executive summary section of the Expert Institution Report about the Merger Transaction between İŞ REIT and TSKB REIT, dated June 13, 2017 originally prepared in Turkish language.

In case of contradiction between the original Turkish report and this document, the original Turkish report should be regarded as definitive.

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İş Gayrimenkul Yatırım Ortaklığı A.Ş.
İş Kuleleri Kule-2
Kat:10-11, 34330
Levent / Istanbul

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.
Ömer Avni Mh., Meclisi Mebusan Cad.,
Molla Bayırı Sok. No:1, 34427
Beyoğlu / Istanbul

DRT Kurumsal Finans

Danışmanlık Hizmetleri A.Ş.

Deloitte Values House
Maslak No1
34398 Istanbul
Tel: +90 (212) 366 60 00
www.deloitte.com.tr

13 June 2017

To the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı A.Ş. and TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.,

İş Gayrimenkul Yatırım Ortaklığı A.Ş. ("İş REIT" or "Acquiree Corporation") and TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB REIT" or "Acquired Corporation") (hereafter they will be referred to as "Companies") decided to merge all the assets and liabilities of TSKB REIT into İş REIT through the acquisition of TSKB REIT as a whole.

DRT Kurumsal Finans Danışmanlık Hizmetleri A.Ş. ("Deloitte") has been assigned as an expert institution in the merger transaction ("Merger Transaction") of İş REIT and TSKB REIT as of 31 December 2016, to determine the merger and exchange ratio and the amount of resulting capital after the merger.

This Report and the information given therein have been prepared within the scope of the Communiqué on Merger and Demerger II-23.2 ("the Communiqué") of the Capital Markets Board ("CMB") and it is recommended to review the complete Report together with the pages that follow in order to form an overall opinion. This report will be made public in accordance with Article 8 of the Communiqué. We accept no liability to any other party who is shown or gains access to this report.

Yours faithfully,

Gökhan Altun

Partner

DRT Kurumsal Finans Danışmanlık Hizmetleri A.Ş.

Member of DELOITTE TOUCHE TOHMATSU LIMITED

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Executive Summary | Purpose and Scope

The purpose, scope and restrictive conditions of the report

Purpose and Scope of the Report

- Deloitte Turkey has been assigned as an expert institution to determine the merger and exchange ratio and the amount of resulting capital regarding the Merger Transaction of İŞ REIT and TSKB REIT, as of December 31, 2016.
- This report, dated June 13, 2017 ("the Report Date"), is prepared in accordance with the International Valuation Standards ("IVS"), under consideration of three internationally accepted valuation methods, for the purpose of estimating the fair value of the equity capital of İŞ REIT and TSKB REIT, based on which determine the merger ratio, the exchange ratio and the amount of capital after merger.
- This report is prepared in accordance with the Engagement Letter, dated April 19, 2017, signed by Deloitte and the parties of the merger, which sets out the rights and obligations of the parties, and presents the findings of Deloitte regarding the merger ratio and the exchange ratio. This report is not intended for any purpose other than to express an opinion regarding the merger ratio and the exchange ratio for the Merger Transaction to be carried out by transferring the assets and liabilities of TSKB REIT as a whole to İŞ REIT.
- The data presented in this report are provided by the managements of Companies. The accuracy of the data has not been audited by us. Our procedures and enquiries did not include verification work or constitute an audit in accordance with generally accepted auditing standards. Therefore, we do not express any opinion on any financial data or other information provided by the company managements and publicly available data referred to in this report. In addition, our work does not constitute a financial due diligence.
- We would like to state the conformity of our company with the requirements regarding the business valuation services set out in the Capital Markets Board's decision number 37/875, dated July 17, 2003.

Restrictive Conditions and Determining Factors

- This report is based on the following restrictive conditions:
- The data used in the report are provided from the Company Managements, publicly available data published by Public Disclosure Platform ("PDP" or "KAP"), database of S&P Capital IQ, public institutions, media organizations and other sources deemed reliable by the valuation experts. The financial statements used in the report are the financial statements of the Companies that are audited under the Turkish Accounting Standards ("TAS") and Turkish Financial Reporting Standards ("TFRS"). Analyses in the report are based on the assumption that all data are complete and accurate. Deloitte will not accept responsibility in case of provided data would prove to be incomplete and/or inaccurate in a way that could affect the estimates and the results of the this report.
- In accordance with the merger decision, financial statements of the Companies as of December 31, 2016 are taken as a basis for the Merger Transaction. According to the profit distribution table approved at the Ordinary General Meeting of İŞ REIT on 23 March 2017, it has been decided to distribute TL 63,750,000 cash dividend and TL 63,750,000 bonus shares to be paid to the shareholders from the net profit of 2016. Within this scope, a cash dividend of TL 63,750,000 was distributed on March 28, 2017. An adjustment for this cash dividend distribution is made under the net asset value method, the market value method and net financial position calculations. As of April 27, 2017, the issued capital of İŞ REIT has increased by TL 63,750,000 and reached TL 913.750.000. When calculating the amount of capital after the merger, this increased amount of capital of İŞ REIT as of the Report Date is taken into account.

Merger Decision

- The decisions taken by the Board of Directors of İŞ REIT and TSKB REIT regarding the merger were published in PDP on 18 April 2017 .



Executive Summary | Selected Methods

Selected methods and reasons of the report

Selected Methods and Reasons

- In accordance with Article 7 of the CMB's II-23-2 Communiqué on Merger and Demerger ("the Communiqué"), the merger ratio, the exchange ratio and the resulting capital after the Merger Transaction of İş REIT and TSKB REIT are calculated by using three different valuation methods that are accepted under the IVS.
- Within this scope, three different valuation methods are applied, namely the market value method under the market approach, the adjusted net asset value method under the cost approach and the discounted cash flows method under the income approach.
- The shares of Companies are traded in Borsa Istanbul Stock Exchange ("BIST") and there are no restrictions on the exchange of these shares. The prices in the market can be directly observed. On the other hand, market prices can be speculative and volatile in the short-run. However, the values of the transactions realized and observed in the open market stand out as the most objective method in determining the fair value of the Companies' equity capital. For this reason, a weight of 40% is assigned to the market value method.
- The financial statements, which are taken as a basis in the Merger Transaction, are prepared in accordance with the Turkish Accounting Standards ("TAS") issued and enacted by the Public Oversight, Accounting and Auditing Standards Authority ("POAASA") in accordance with the CMB's "Communiqué on Principles of Financial Reporting in Capital Markets" and are audited by independent auditors as of December 31, 2016. The investment property account, which is the largest item in total assets for both companies, is measured at fair value in accordance with Turkish Accounting Standards 40 "Investment Property". This is an indication that the book values of equity in the companies' balance sheets are close to their fair values. Therefore, a weight of 30% is assigned to the adjusted net asset value method under the cost approach.

Selected Methods and Reasons (cont.)

- As a third method, the discounted cash flows ("DCF") method under the income approach, has been chosen. This method is based on a detailed analysis of the company's future cash flows. However, it reflects subjective judgments about the future. Since this method is based on company-specific growth and cash flow projections, it is regarded as the most preferred valuation method by investors.
- Investment properties in real estate investment trust portfolios are held with the expectation of realizing rent income as well as the expectation of an increase in the value of the underlying asset. Investment properties are accounted for at fair value in accordance with the Turkish Accounting Standards. Companies recognize income in case of an increase in the value of the asset, but this income is not always supported by actual cash inflows and the realization of these cash inflows largely depend on the sale of the relevant property. There is uncertainty as to whether or not there is a sales decision for the relevant real estate, and estimate of the timing of such sale incorporates a high level of subjectivity. This makes it difficult to estimate the timing of expected cash flows. In addition, the time lag in reflecting real estate value appreciation into cash rental income due to long-term nature of the rental contracts is another factor that makes it difficult to estimate the timing of expected cash flows.
- A weight of 30% is assigned to the DCF method under consideration of the advantages and disadvantages mentioned above.



Executive Summary | Valuation Result

Valuation Result

TL	Market Approach	Cost Approach	Income Approach	Result
	Market Value Method	Adjusted NAV Method	DCF	
Merger ratio	92.99%	94.14%	98.10%	95.08%
Equity value - İŞ REIT	1,273,393,060	3,097,595,656	2,249,303,198	2,113,426,880
Equity value - TSKB REIT	95,922,705	192,899,532	43,633,362	109,328,950
The Capital which will be reached	982,581,357	970,652,826	931,475,482	961,018,883
Paid in capital - İŞ REIT	913,750,000	913,750,000	913,750,000	913,750,000
Paid in capital - TSKB REIT	150,000,000	150,000,000	150,000,000	150,000,000
The exchange ratio	0.45887571	0.37935217	0.11816988	0.31512588
The Capital which will be increased	68,831,357	56,902,826	17,725,482	47,268,883
Weights	40%	30%	30%	100%

Calculation method

Merger Ratio	=	$\frac{A}{A + B}$
The Capital which will be reached	=	$\frac{C}{\text{Merger ratio}}$
The Capital which will be increased	=	The Capital which will be reached - C
The exchange ratio	=	$\frac{\text{The Capital which will be increased}}{D}$

(A) Equity capital of the acquiring company

(B) Equity Capital of the company being acquired

(C) The paid in/issued capital of the acquiring company

(C) The paid in/issued capital of the company being acquired

Valuation Result

- In accordance with Article 7 of the Communiqué, the merger ratio, the exchange ratio and the resulting capital after merger in the Merger Transaction of İŞ REIT and TSKB REIT have been calculated by using three different valuation methods that are accepted under the International Valuation Standards.
- As stated in the previous page, the market value, the adjusted net asset value and the DCF methods are weighted 40%, 30% and 30%, respectively. As a result, the final merger ratio is calculated as 95.08%.
- The resulting capital after the merger is calculated as TL 961,018,883. As of the Report Date, the capital increase to be made by İŞ GYO, which has a paid-in capital of TL 913,750,000, is calculated as TL 47,268,883.
- The exchange ratio, at which the capital increase of TL 47,268,883 would be distributed to the shareholders of TSKB REIT with respect to the proportion of their shares in the TL 150,000,000 paid-in capital of TSKB REIT, is calculated as 0.31512588.
- It has been assessed that the exchange ratio calculated as a result of the three applied valuation methods and the respective weights assigned to these methods is fair and reasonable.

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