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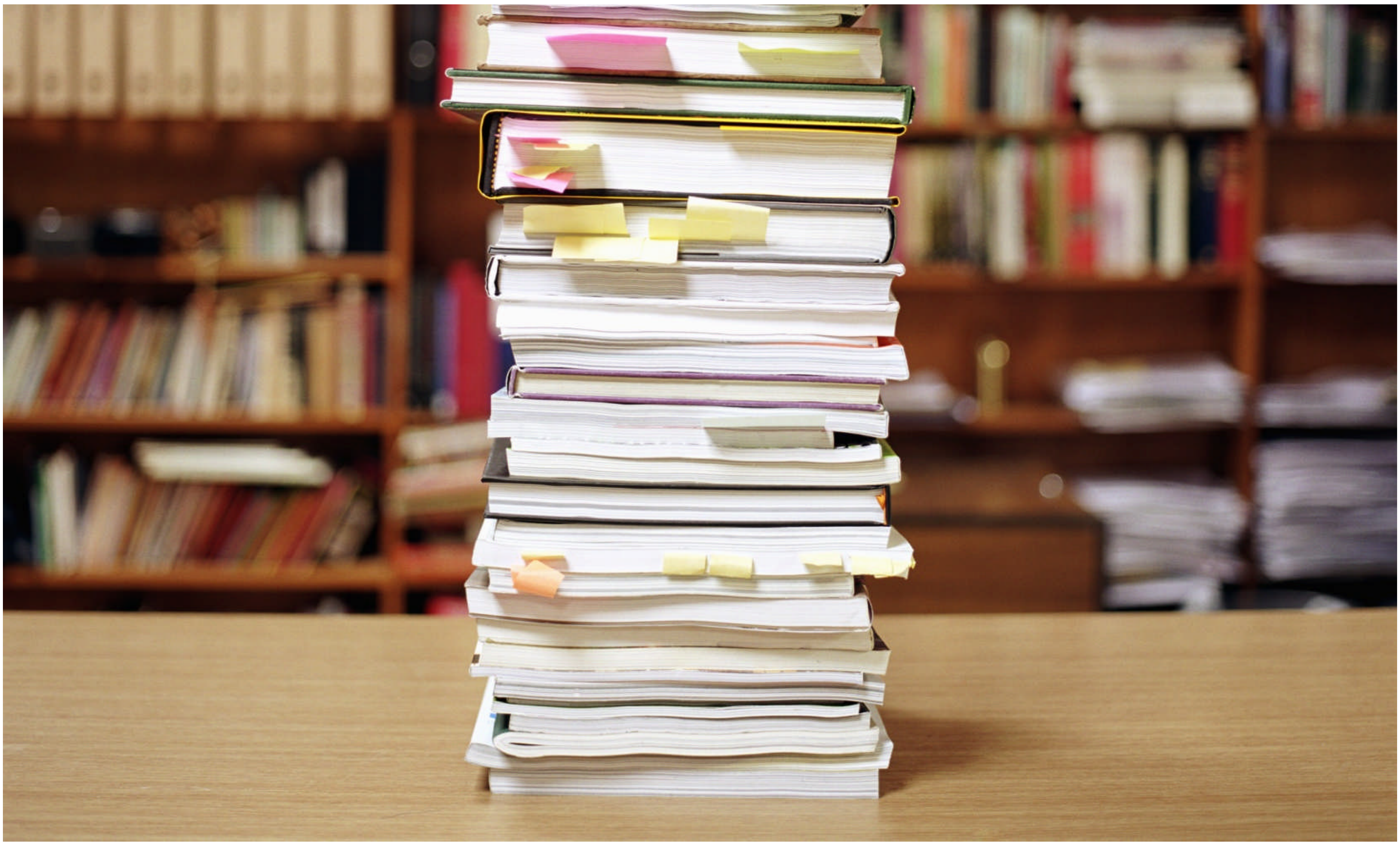
IPO Watch: Turkey Focus

Development of IPO Activity

Capital Markets

Content



1

Introduction

Introduction

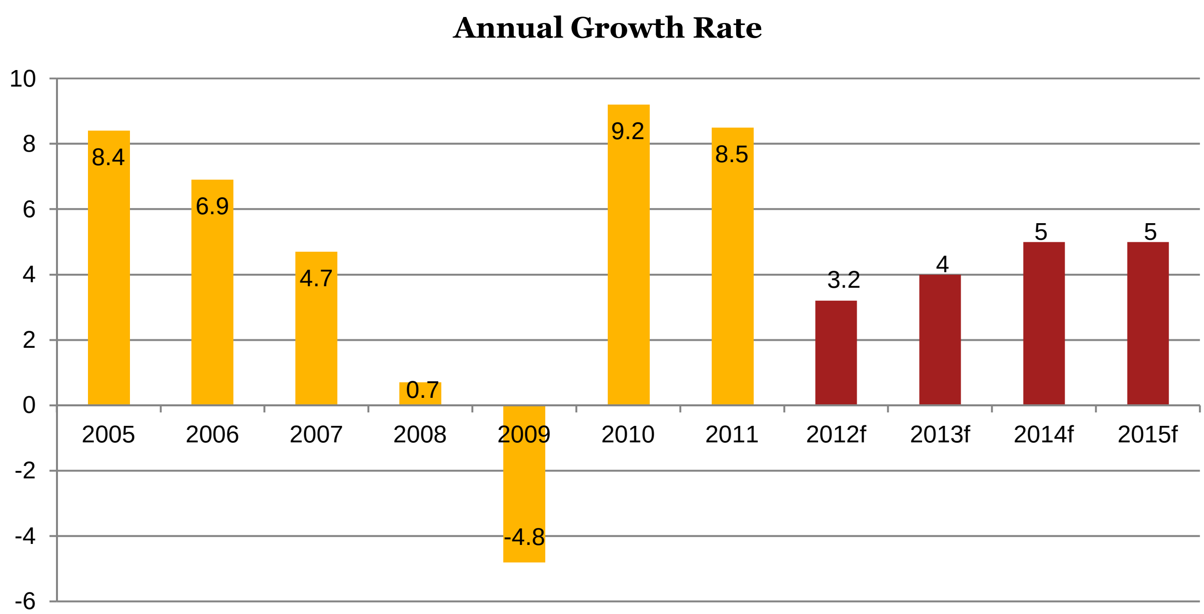
A brief look at the past decade – economic indicators and IPO activity

With its population of 75.6 million and Gross Domestic Product ("**GDP**")of around 771 billion and per capita GDP of USD 10,400 approximately, Turkey is one of the largest economies in the region. The size of the current economy reflects the solid performance of positive growth in 13 of the last 14 quarters in seasonally adjusted terms.

A review of Turkey's basic macro-economic indicators shows that the country's GDP of USD 269 billion in 1998 climbed to USD 303 billion in 2003, USD 742 billion in 2008 and USD 617 billion in 2009. The GDP estimate for 2013 is USD 858 billion. (Source :Turkstat , 2012 estimate from Medium Term Programme)

Shrinking 5.7 percent annually due to the 2001 economic crisis, the Turkish economy subsequently displayed continuous growth until the last quarter of 2008, when it began to contract due to the global financial crisis. The inflation rate was higher than the year-end target in the same period, and as a result of rapidly declining foreign demand, a harsher financial environment and application of precautionary savings plans; an economic recession began in the last quarter of 2008 and continued in 2009.

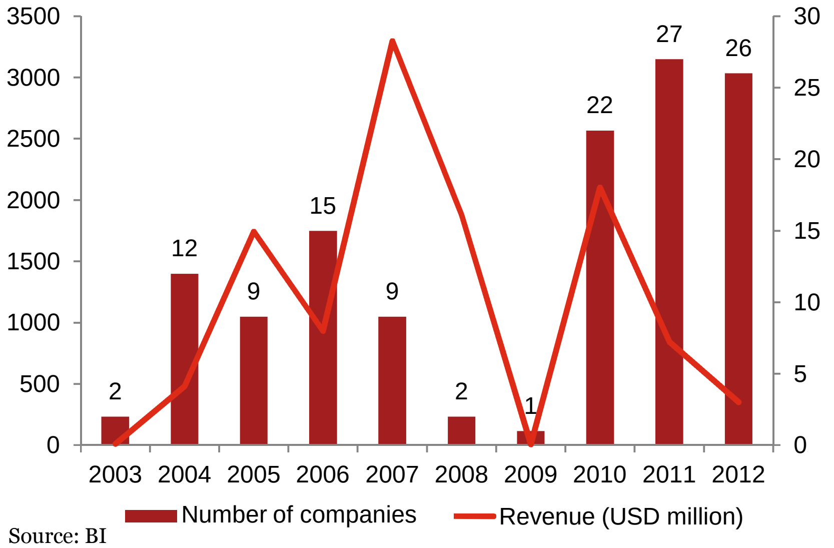
After a strong year in 2010, with growth of 9.2% driven by private consumption , the Turkish economy preserved its robustness in 2011, where the economy demonstrated sound economic growth of 8.5%.



Following the return to growth of the overall economy, the favourable conditions prevailing subsequent to the 2009 global crisis, Initial Public Offering ("**IPO**") activity accelerated on the Borsa Istanbul (**"BI"**), fuelled in part by new practices in the Turkish Capital Markets.

The IPO Campaign initiated in 2008, followed by the establishment of the 'Emerging Companies Market' ("**ECM**") in 2011 has started to trigger increased public offerings.

The number of IPOs and amount raised



Source: BI

The stock exchange has experienced 75 public offering from 2010 to the end of 2012, with 12 of them on the Emerging Companies Market.

Key drivers of future activity

The development of the modern Turkish economy has been spurred by Turkey's business environment and the advantages it offers, and this looks set to continue if appropriate policies are pursued. The specific conditions prevailing in the Turkish economy can be summarised as follows:

- Demographic structure: large and growing population, young population, increasing urban population, number of large and growing cities;
- Income level: economic growth, rising per capita income, varied income distribution;
- Liberal commercial and economic environment, customs unions;
- Geographic location, logistical advantages; and
- Closer economic relationships and increasing trade with neighbouring countries (including increasing trade with the Middle East), including visa-free travel opportunities.

Turkey is the 16th largest economy and 16th most populous country in the world. By more effectively capitalising on its potential and regulating its entire economy, the country could increase its economic ranking further in the future, thereby increasing demand for capital and future IPO activity.

This publication analyses the development of the IPO market in Turkey with a focus on the past 3 years, and aims to provide an overview of the key characteristics of this market, including sector commentary, as well as a summary of future indicators of activity.

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Turkey: Historical Activity

Chronology of important events in Turkish Capital Markets

Apart from the improved economic conditions over the past few years, a number of other factors may also impact Capital Market activity in Turkey.

There are several regulatory bodies and trade organisations in Turkey with initiatives and objectives in place to enhance Capital Markets activity, as well as attracting investment into Turkey. In summary the key aims of these initiatives include:

- Increasing the number of listed companies on the BI;
- Improving financial literacy among corporates and the general population;
- Allowing ease of access to capital;
- Promoting the interests of SMEs;
- Reducing the cost burden of listing on certain eligible companies;
- Providing investor education; and
- Increasing the types of instruments traded on the BI.

The following is an outline of some of these strategic initiatives, together with the key players involved.

7 August 2008	2 October 2009	November 2009	3 April 2010	17 May 2010	August 2010
CMB, BI, TSPAKB, and TOBB sign a protocol and initiated an IPO campaign.	Istanbul Finance Center Strategy and Action plan has been published in the Official Gazette.	Introduction of Collective Products Market	Change in CMB regulations	BI allows trading of unlisted bonds between qualified investors	Introduction of Warrant Market

October 2010	4 February 2011	5 March 2012	10 May 2012	1 July 2012	31 December 2012
Introduction of Emerging Companies Market	KOSGEB, BI, CMB, TSPAKB protocol for supporting SME IPOs	Investor Campaign Cooperation protocol was signed by the CMB, BI, TSPAKB and a number of other trade organisations.	Introduction of Free Trading Platform (Serbest İşlem Platformu)	New TCC becomes effective	New CMB Law passed

A focus on the last 3 years

There was a sharp increase in the number of IPOs in 2010 as compared with 2009, with 2010 having a total number of 22 IPOs (there was only one IPO in 2009) - almost the same number as in the previous 4 years combined (between 2006 – 2009 there were 27 IPOs in total).

The trend for increasing numbers of IPOs continued into 2011, albeit with a reduced total amount of capital raised , with a 60% reduction in total amount raised (USD 842 million).

The year 2012 showed a static number of IPOs, with fewer listings on the Main Market and a marked increase in the EMC. Total money raised also reduced by 58% as compared with 2011 (to USD 352 million).

The stark reduction in capital raised is most likely to be a combination of factors including perhaps an abnormally high demand for capital in 2010 due to companies holding back as a result of concerns about the economy between 2008 and 2009. It should be noted that foreign investors have a significant interest in the Turkish stock exchange (the average foreign share between 2003-2012 is 64.1%), therefore, investor appetite from overseas may have been tempered by growing concerns about the Eurozone crisis in 2011 and 2012.

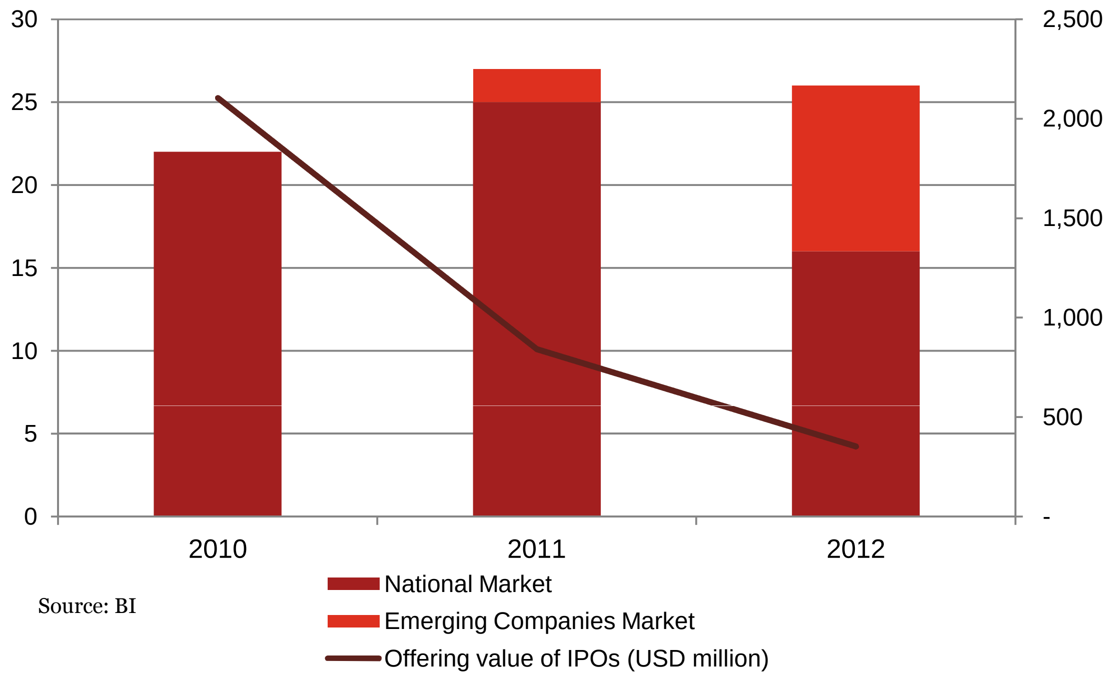
	2010	2011	2012
Total Turkish IPOs			
National Market	*22*	*25*	*16*
Emerging Companies Market	*0*	*2*	*10*
Total number of IPOs	**22**	**27**	**26**
Total money raised (USD m)			
National Market	*2,104*	*826*	*303*
Emerging Companies Market	*0*	*15*	*49*
Total Money Raised (USD m)	**2,104**	**842**	**352**
Average offering value (USD m)			
National Market	*96*	*33*	*19*
Emerging Companies Market	*0*	*8*	*5*
Average offering value (USD m)*	**96**	**31**	**13**
* Calculated based on total offering value over the number of IPOs			

Source: BI

IPOs during 2010 -2012

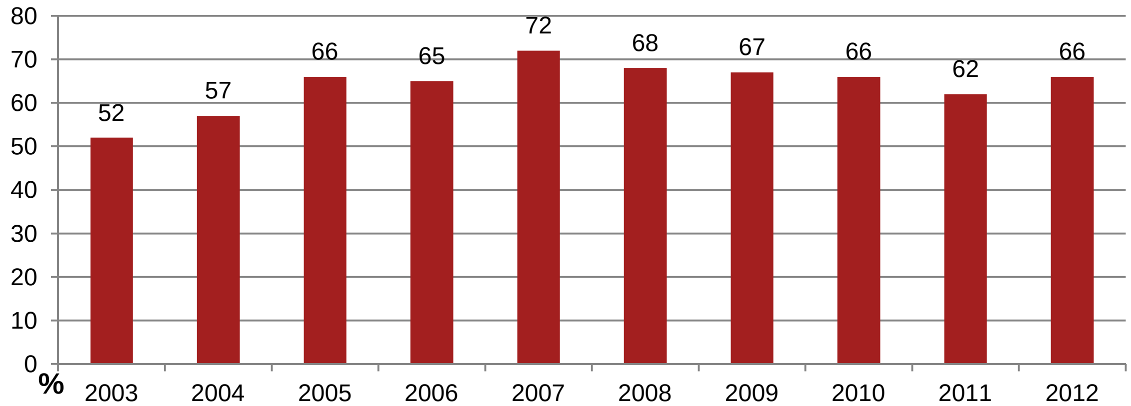
The Turkish IPO markets fell short of expectations in 2012 compared with 2010 and 2011, with 26 IPOs raising just USD 352 million, compared with 27 IPOs raising USD 842 million in the prior year.

Number of IPOs and capital raised (2010 – 2012)



Source: BI

Foreign Participation as of %
of Free Float Market Capitalization



Source: BI

Major IPOs - Top 5 IPOs in 2012

2012				
Company	**Money raised TL m**	**Money raised USD m**	**Sector**	**Sub-sector**
Tümosan Motor ve Traktör San A.Ş.	120.0	67.5	Manufacturing	Manufacture of fabricated metal products, machinery and equipment
Özak GYO A.Ş.	98.1	59.3	Financial Institutions	REIT
Teknosa İç ve Dış Ticaret A.Ş.	98.0	54.8	Wholesale - retail trade, hotels and restaurants	Consumer trade
Polisan Holding A.Ş.	44.4	24.4	Financial Institutions	Holding & Investment Companies
Karakaş Atlantis Kıymetli Madenler Kuyumculuk Telekomünikasyon Sanayi ve Ticaret AŞ	41.9	23.0	Manufacturing	Other
Total	**402.4**	**229.0**		
Amount raised as a percentage of total in 2012				**65%**

Source: BI

Major IPOs - Top 5 IPOs in 2011 and 2010

2011				
Company	**Money raised TL m**	**Money raised USD m**	**Sector**	**Sub-sector**
Bizim Toptan Satış Mağ. AŞ	400.0	252.6	Wholesale and retail trade, hotels and restaurants	Consumer Trade
Kiler GYO A.Ş.	184.1	121.9	Financial Institutions	REIT
Akfen GYO A.Ş.	123.4	80.6	Financial Institutions	REIT
Kiler Alışveriş Hizmetleri Gıda San. ve Tic. A.Ş.	123.2	78.5	Wholesale and retail trade, hotels and restaurants	Consumer Trade
Bimeks Bilgi İşlem-Dış Tic A.Ş.	85.5	57.2	Wholesale and retail trade, hotels and restaurants	Consumer Trade
Total	916.2	590.9		
Amount raised as a percentage of total in 2011				**69%**

2010				
Company	**Money raised TL m**	**Money raised USD m**	**Sector**	**Sub-sector**
Emlak Konut GYO AŞ	1,052.0	722.5	Financial Institutions	REIT
Koza Altın İşletmeleriAŞ	662.4	435.5	Mining	N/a
Torunlar GYO AŞ.	411.4	288.8	Financial Institutions	REIT
Aksa Enerji Üretim AŞ	154.8	98.0	Electricity, gas and water	N/a
Do&Co Restaurants and Catering AG	121.6	90.5	Transportation, Communication & Storage	Transportation
Total	**2,402.2**	**1,635.3**		
Amount raised as a percentage of total in 2010				**78%**

Source: BI

Cumulative top 5 IPO's in 2010 – 2012

Company	Money raised (TL)	Money raised (USD m)	Sector	Sub-sector	Year
Emlak Konut GYO A.Ş.	1,052.0	722.5	Financial Institutions	REIT	2010
Koza Altın İşletmeleri AŞ	662.4	435.5	Mining	Mining	2010
Torunlar GYO A.Ş.	411.4	288.8	Financial Institutions	REIT	2010
Bizim Toptan Satış Mağazaları AŞ	400.0	252.6	Wholesale and retail trade, hotels and restaurants	Consumer Trade	2011
Kiler Gayrimenkul Yatırım Ortaklığı A.Ş.	184.1	121.9	Financial Institutions	REIT	2011
Total	**2,709.9**	**1,821.3**			
Amount raised as a percentage of total in 2010 – 2012					**55%**

Source: BI

Major IPOs

The total money raised by the top five IPOs decreased by USD 361.9 million, or 61% from 2011 to 2012. This compares to a reduction of USD 1.044,4 million, or 64% from 2010 to 2011.

The top 5 IPOs in each of 2010, 2011 and 2012 represented 78%, 69% and 65% of total amounts raised in those years respectively, therefore, reflecting an overall reduction in average deal size. Average deal size was USD 96 million, 31 million and 13 million in 2010, 2011 and 2012 respectively. This reduction over the past 3 year in average size of capital raising is likely to be due, in part, to the introduction of the Emerging Companies Market in 2010 which aims to allow access to capital for companies with ambitions to grow but fall short of the requirements of a listing on the main National Market.

The year 2010 was the second highest for IPO funds raised in the last 10 years (after 2007 when USD 3.3 billion was raised). The funds raised were boosted in particular by 2 large REITs (Emlak and Torunlar), one large Mining Company (Koza Altın) and one Electricity, Gas and Water company (Aksa Enerji). The funds raised by Emlak (USD 722.5 million) alone represented about 86% of total funds raised in the following year (2011: USD 842 million). Another noteable listing in 2010 was that of Do&Co Restaurants and Catering AG. An Austrian catering and entertainment company previously listed on the Vienna Stoch Exchange. Do&Co became the first foreign company to be listed on the Borsa Istanbul.

REITs continued to dominate the market for equity raisings in 2011, with 2 large IPOs (Kiler and Akfen), together raising USD 374.5 million (44% of the total raised in that year). However, this domination of the top-5 by REITs was tempered by 2 large IPOs of Consumer Trade companies (Kiler and Bimeks) raising USD 135.7 million in total.

There was further diversification in terms of industry sector in 2012 with the IPOs of 2 relatively large Manufacturing companies (Tümosan and Karakaş) together raising USD 90.5 million. However, Financial Institutions (including REITs and Holding Companies) still featured prominently in the top-5 with two significant IPOs.

Why REITs are dominating the market

It should be noted that in Turkey all REITs are required to be publicly listed.

In addition, REITs have two key tax benefits in that they are exempt from both corporation tax and income tax, thereby providing investors with a unique exposure to the Turkish Real Estate market.

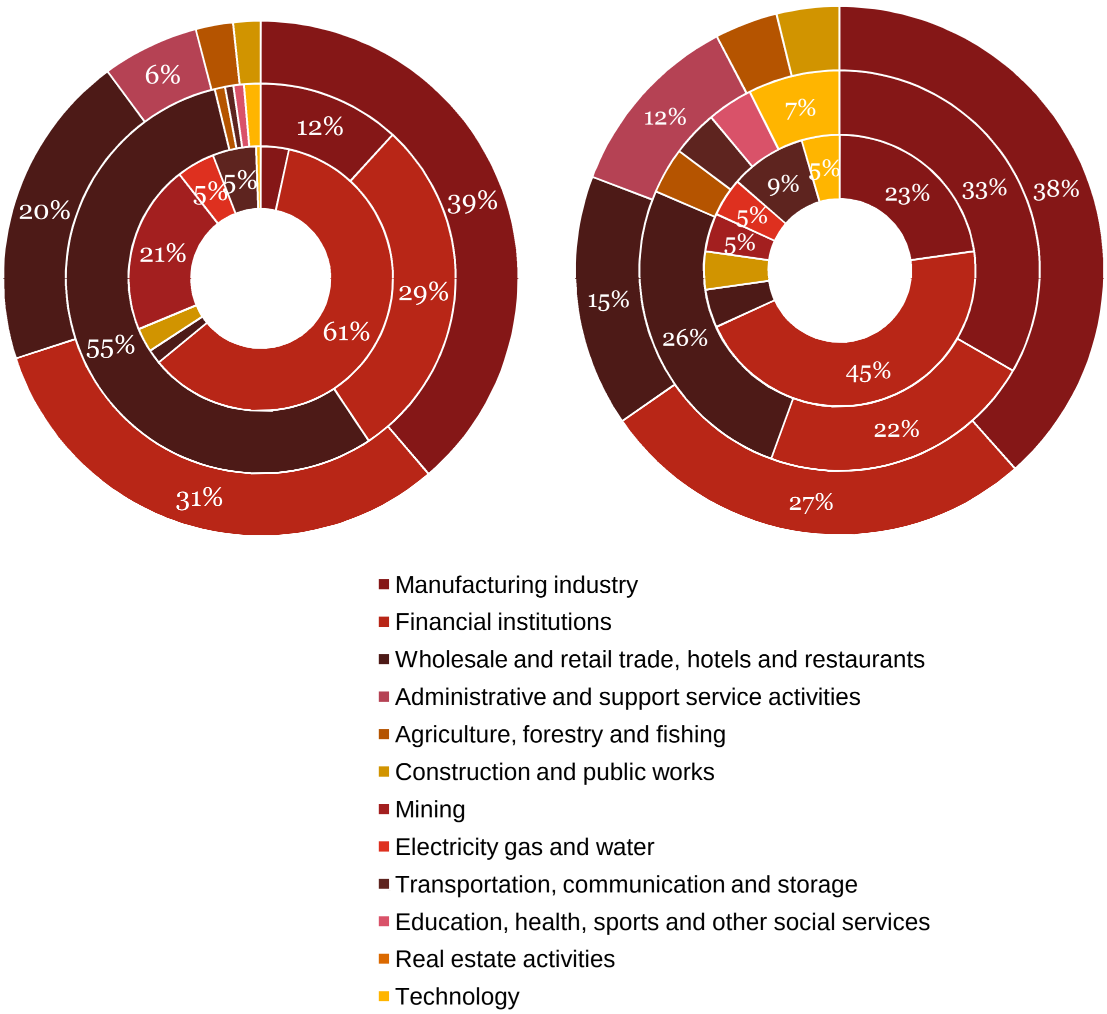
In 2010, REIT legislation was amended via a REIT communiqué which reduces the prescribed period for REIT IPOs to only three months after registration of their incorporation to the trade registry.

This change of legislation is expected to speed up the IPOs for newly formed REITs.

Source: BI

Sector focus – listings in the last 3 years

Capital raised by sector (2010-2012) | **Number of companies listing by sector (2010-2012)**



Source: BI

Sector focus – listings in the last 3 years

Apart from the top 5 IPOs, an overall analysis of listings indicates that the largest demand from capital in 2012 came from the Manufacturing Industry, Financial Institutions and Wholesale and retail trade, hotels and restaurants raising a total of USD 316 million (or 90%) of total capital raised that year across both the National Market and the EMC. This sector rankings were the same a s in 2011 (in the same order), when these three sectors raised a total of USD 810 million (or 96% of the total raised that year).

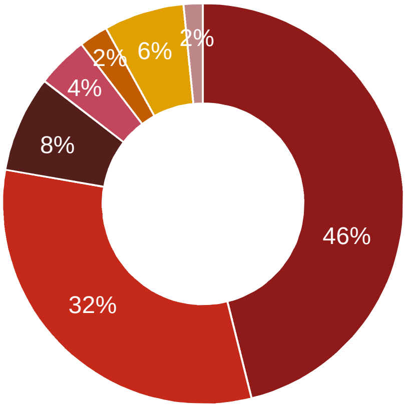
In 2010, however, the top 3 sectors raising funds from IPO were remarkably different. Whilst Financial Industries still claimed the highest ranking (raising 60% of the total), Mining and Transportation, communication and storage raised 21% and 5% respectively. The results in 2010 were skewed by 2 large individual companies being Koza Altın (Mining) raising USD 435.5 million and Do & Co (Transportation, communication and storage) raising USD 90.5 million. Excluding these transactions, the next largest sectors to raise capital in 2010 were Electricity gas and water (also dominated by one transaction for Aksa Enerji) and Manufacturing.

In terms of numbers of companies listing in 2010 to 2012, the top 3 sectors demanding capital remain consistent (in varying order) at Manufacturing, Financial Institutions and Wholesale and retail trade, hotels and restaurants.

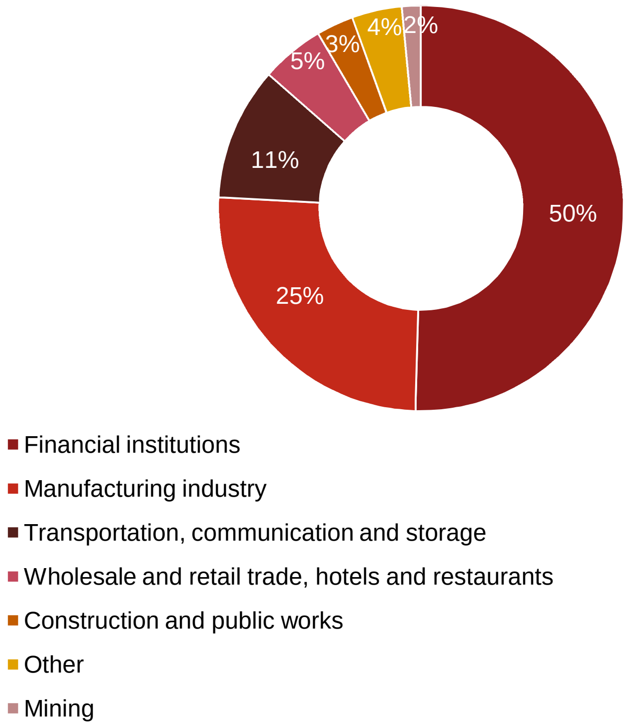
In 2012, the Manufacturing industry demonstrated the largest demand for public equity, both in terms of number of companies raising capital and in terms of capital raised.

Sector focus – cumulative results

Market Capitalisation by sector (2012)



Number of companies by sector (2012)



Source: BI

Bank sector demand remains solid in secondary offerings

In November 2012, state-run Türkiye Halk Bankası (HALKB.IS) raised TRY 4.51 billion (c. USD 2.5 billion) in its secondary public offering in the Borsa Istanbul. Total demand for the bank's shares were TRY 11 billion (c. USD 6.2 billion).

The government sold a 23.9% stake of the bank at TRY 15.1 lira per share (c. USD 0.85 per share), in the top half of the offer range of TRY 13.80-15.90; signalling strong investor interest. 10% of total shares sold were bought by 30 thousand domestic retail investors, another 10% were sold to 170 domestic institutional buyers and the remaining 80% were sold to international institutional buyers.

The bank had its initial public offering in May 2007, where 24.98% of its shares were sold.

Sector focus – cumulative results

Aside from demand in the past 3 years, it is interesting to note that the total size of the equity markets (both in terms of Market Capitalisation and number of companies) is dominated by Financial Institutions, the Manufacturing industry and Transport, communication and storage sector.

It is worth noting that Financial Institutions include a number of sub-sectors, the larges of which are Banks, Holding Companies and REITs. Banks in particular are likely to continue to require funding based on Turkey's favourable demographics and the under-penetration of the industry in terms of usage of financial intermediaries and financial products when compared with global standards. The banking industry is also expected to benefit from the recent upgrade to Investment Grade Rating from Fitch Ratings, as this will lower cost of funding with increasing access to cheaper sources of finance and possibly public equity raisings.

The Manufacturing sector is comprised of a diverse array of sub-sectors including computers, electrical & electronics, transport equipment, metals & metal products, food & beverages, petroleum products, textiles, machinery, rubber & plastics, chemical products, paper & wood products and leather products. Of these industries, there are a number with currently favourable market conditions, that are considered likely to benefit most from Turkey's traditional strengths in natural resources, its geographical proximity to large foreign markets, while taking advantage of a skilled and young workforce. In particular, the largest contributors to market capitalisation in this sector are 'Fabricated metal products, machinery and equipment', 'Chemicals and chemical petroleum, rubber and plastic products' and 'Food, beverage and tobacco'.

Overall demand for capital is the highest from Financial Institutions

3

Debt financing

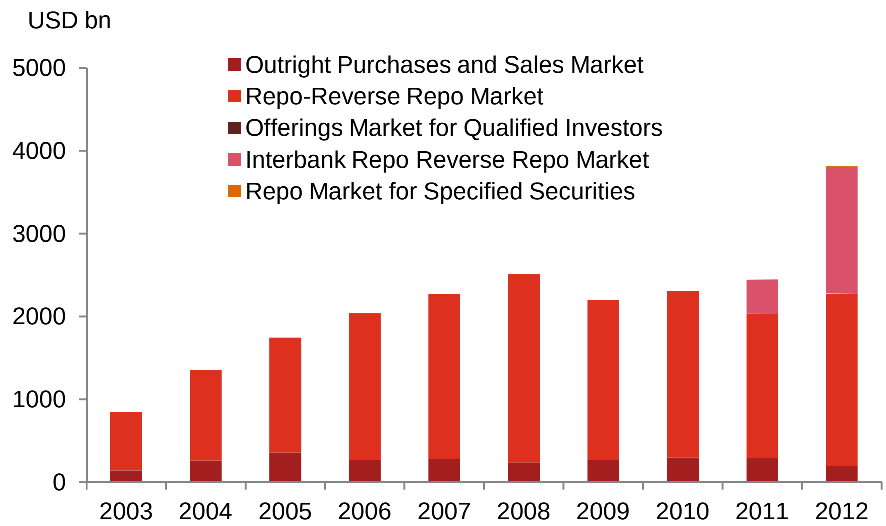
A brief look at debt financing

Traded Value for the Debt Instruments Market reached a record level in 2012, especially with the help of the high trading in the interbank repo market. In contrast to the equity markets, the corporate bond market is dominated by local investors, since corporate bond issuance became popular after 2010.

The participation in the Debt Instruments Market may rise after the ratings upgrade by Fitch Ratings. Turkish banks/corporates have USD 12.6 billion Eurobonds that are trading in global markets.

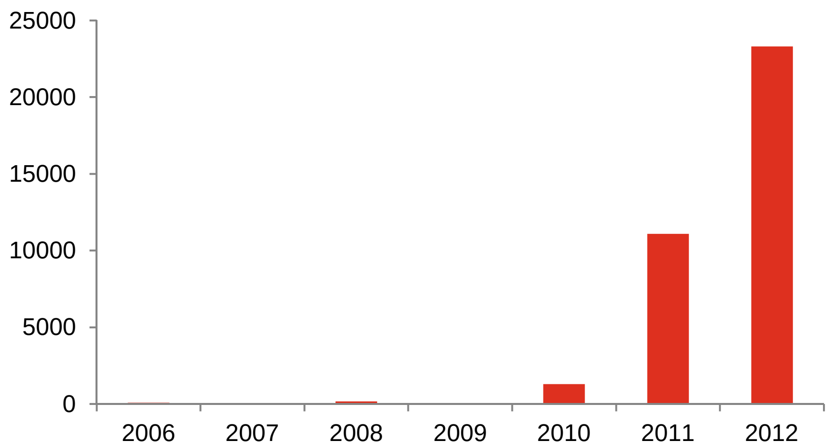
Starting from 2010, issuance of a debt instrument became an important finance source for corporations in Turkey. The decline in interest rates is the most likely reason behind this increase in activity. In 2011 a total of USD 11 billion of debt instruments (including, bill, bond, commercial paper and asset backed securities) were issued. A remarkable increase in the issuance of debt instruments have been observed with new issuances in 2012.

Debt instruments Market Traded Value



Source: BI

Total debt instruments (bills, bonds, commercial paper, ABS)



Source: BI

Key statistics from the past 3 years

Borsa Istanbul	2010	2011	2012	Annual Change
Publicly Traded Company	344	363	406	11.8%
Exchange Traded Funds (ETF)	12	12	16	33.3%
Private Sector Debt Instrument (Issued)	15	58	240	313.8%
Equity Market Total Market Cap, USD billion	308	202	310	53.3%
Equity Traded Value (Total) USD billion	426	424	348	-17.9%
Equity Traded Value (Daily Average) USD billion	1.7	1.7	1.4	-17.9%
Debt Instrument Traded Value (Total), USD billion	2.308	2.449	3.814	55.7%
Debt Instrument Traded Value (Davily Average), USD billion	9.2	9.7	15.1	55.7%
Foreign Share	66.2%	62.2%	65.9%	

Source: BI

4

Outlook

Outlook

There are a number of key factors which are likely to impact future IPO activity. Among them are regulatory changes such as the New Capital Markets Law and the New Turkish Commercial Code. In addition, the economic outlook, including growth projections, government plans (e.g. Budget and privatisation initiatives) are likely to impact demand for capital. These are summarised as follows:

Of all the initiatives planned by trade associations and government bodies, perhaps the two most important ones are the new Turkish Commercial Code (TCC) and the New Capital Markets Law.

Recent key regulatory changes

New TCC

The TCC contains significant articles that will have a considerable impact on commercial life in Turkey.

The TCC covers a number of areas including corporate governance, information requirements, rules for single-shareholder joint stock companies and single-member limited liability companies, the concept of a group of companies, structural changes, accounting standards applicable, audit requirements and timely payment of invoices.

The TCC integrates Turkish commercial law with the EU law, but also creates a good infrastructure for the sustainability and competitiveness of Turkish firms.

Certain aspects of the TCC will continue to evolve (e.g. types and number of companies requiring an audit).

However, the overall outcome, once the Code has been embedded and appropriately implemented is expected to be positive in terms of relative attractiveness of Turkish companies as investment propositions.

In turn, this is likely to result in stimulating investment and capital market activity.

TCC Key facts

Enacted at the beginning of 2011

Effective since 1 July 2012

Provides a sound infrastructure based on corporate governance

Four principles of corporate governance apply:

- Transparency;
- Fairness;
- Accountability; and
- Responsibility

New Capital Markets Law

New Capital Markets Law

In March 2012, the CMB released a draft Capital Markets Law for public comment. The law has been passed on 31 December 2012.

The law is expected to harmonise the process of issuing equities to that in the EU.

The key objective of the law is to increase disclosure requirements.

Key aspects of the new Capital Markets Law include:

- Financial instruments will be no longer be registered with the CMB. Instead of registration, a prospectus approval mechanism will be introduced, similar to that used in the EU;
- Once approved, the same prospectus may be used to issue securities, with the use of supplemental prospectuses, for a period of 1 year after approval;
- The issuer will be held primarily responsible for the information in the prospectus, including any liability for misleading information. If the issuer is not in a position to compensate any losses incurred due to misleading information included, then the underwriter, guarantor and/or the intermediary/consortium leader will be responsible to the extent they are proven to be at fault.
- Introducing definitions of insider trading and market violations (similar to those used in the EU directives), including penalties and whistle blowing obligations;
- Companies with shareholders exceeding 500 (previously 250) will be considered as public companies and will automatically be subject to CMB regulations. These companies will be required to apply to trading on the BI within 2 years.
- Standards allowing companies to acquire their own shares;
- Defining "significant transactions" for a public company (e.g. mergers, sale of assets) and setting standards for the application of these transactions, including penalties for violating the standards;
- Allowing shareholders who vote against significant transactions to redeem their shares;
- Allowing companies to determine their own level of dividend, based on the view of their general assemblies;
- Introducing a selling option for minority shareholders under certain circumstances; and
- Determining the rights of investors and the responsibility of the company and its management resulting from inappropriate public disclosure.

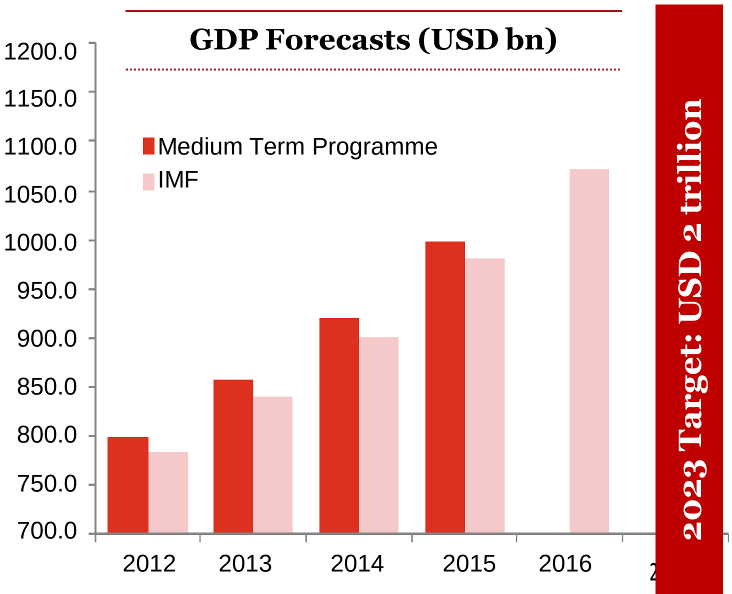
It is anticipated that harmonisation of processes and standards with those in the EU are likely to encourage overall financial literacy, disclosure transparency and issuer accountability. Such benefits could attract the interest of investors, making Turkish companies more attractive as IPO candidates.

Economic Activity – Outlook

General consensus indicates that Turkey's potential economic growth rate is projected at around 4.5%-5.5% per annum in the medium term.

Some factors that are expected to influence this growth potential include higher FDI expectations, the government's new investment incentives in less-developed regions and finding new export partners.

Although all of the current predictions (e.g. by the Medium Term Programme, World Bank and IMF), indicate a steady growth in GDP, the predicted pace of this growth varies. For instance, the IMF estimates indicate that the predicted 5% target will not be reached until after 2017, whereas the World Bank and Medium Term Programme all indicate that 5% will be reached by 2014.



Source: Ministry of DevelopmentIMF, PwC Turkey

According to the latest Medium Term Programme, launched by the Ministry of Development, the size of the Turkish economy is forecasted to reach approximately USD 1 trillion by 2015. Further, a target GDP of USD 2 trillion has been set for the Centennial of the Proclamation of the Republic of Turkey in 2023. By then, Turkey aims to be one of the "Top 10" economies in the world. Such growth is likely to require significant amounts of financing, the source of which will need to come from diverse sources, including public equity and debt.

In the coming 2-3 years, the pace of growth will be affected by Eurozone based global slowdown and the basis effect of previous high growth rates. However, an expected increase in private consumption with the declining interest rates and strategic investment incentives will be the positive contributors the economic growth in the near term.

Annual Growth	2012	2013	2014	2015	2016	2017
Medium Term Programme	3.2	4.0	5.0	5.0		
World Bank	2.9	4.0	5.0	5.0	5.0	
IMF	3.0	3.5	4.0	4.3	4.4	4.4

Source: Ministry of Development,World Bank, IMF, PwC Turkey

General consensus on level of growth is 4.5% to 5.5%, however, pace of growth may vary and could be tempered in the next 2 – 3 years

Central Government Budget

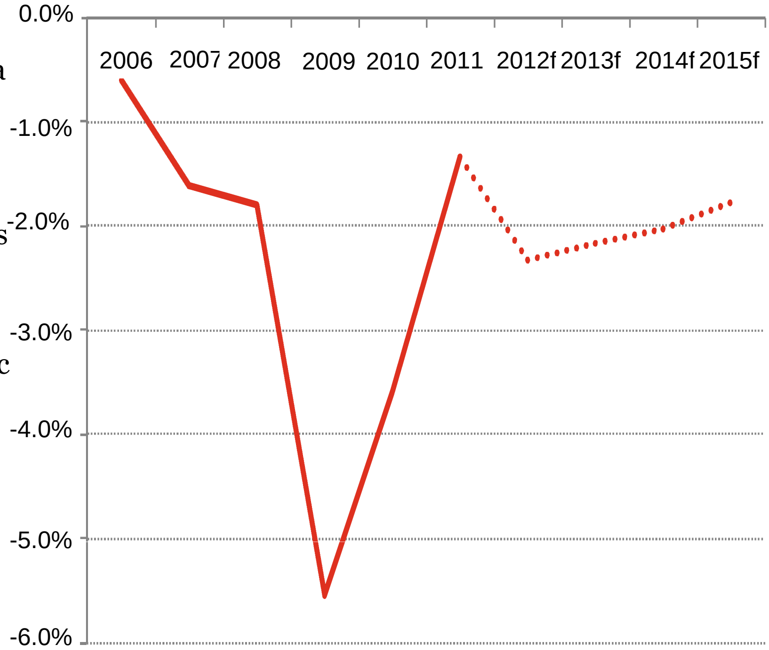
The budget is one of the most robust macro-economic indicators of the Turkish economy.

The central government budget deficit to GDP ratio was below the Maastricht Criteria in five out of the last seven years.

However, potential negative consequences of the economic slowdown have started to be felt within the context of budget revenues in 2012. Examples include:

- reduced household consumption has leading to a decline in domestic VAT revenues by nearly 50% in August 2012 as compared with the same period in 2011; and
- the higher than expected increase in public sector wages after the Turkish Arbitration Board for Public Servants ruled that wage increases originally suggested by the government were not sufficient. (In May 2012, the wage increase rate proposals for 2012 were raised to 4% in January and July as compared to 3% at each of those dates as previously planned.)

Central Government Budget Balance / GDP



Source: Ministry of Finance, Medium Term Programme, Turkstat, PwC Turkey

Government is taking measures to manage the budget deficit, however, risks to achievability prevail

The government has already taken steps to manage the budget deficit via tax rises. These included raising the Special Consumption Tax on fuel, automobiles and alcoholic beverages, increasing the title deed fees in September 2012 and raising tax on imported meat. These measures are likely to carry a risk of increasing inflation.

Government measures will remain at risk due to upcoming elections. However, the budget was successfully managed during the 2011 general elections.

The Medium Term Programme projects privatization revenues of around USD 5 billion per annum in each of the coming three years. Energy (Electricity and Natural Gas Distribution Companies), Transportation (Motorways and Bridges) and Banking (Halkbank already completed) are the key industries on the privatization agenda. Such investment is likely to further bolster the budget deficit.

Privatisation Pipeline

Sectors and companies that are in the portfolio of the Privatisation Administration:

Sector	**Company**
Maritime Transportation	TDİ Turkey Maritime Organization INC.
Energy	ANKARA Natural Electric Distribution and Trade TÜRKİYE Electric Distribution Başkent Natural Gas Distribution
Ports	İzmit and Derince Ports
Telecom	Türk Telekom
Transportation	Motorways & Bridges
Textile	Sumer Holding
Mining	Karadeniz Copper Enterprise
Petrochemical	Hydrogen Peroxiside Company
Food	Turkey Sugar Factories
Other	National Lottery Games

Borsa Istanbul, the new structure for the Istanbul Stock Exchange after the related legislations, is expected to be publicly traded.

Turkey raised to Investment Grade according to Fitch

Fitch Ratings upgraded Turkey's long-term foreign currency rating by one notch to an investment grade “BBB-” from “BB+”. The institution also upgraded the long term local currency rating by two notches to “BBB”. The outlook of the credit rating has considered as stable.

Key drivers behind the rating upgrade are:

- a moderate and declining government debt burden;
- a sound banking system;
- favourable medium-term growth prospects; and
- a relatively wealthy and diverse economy.

Emerging Markets Credit Ratings

	Moody's Investors Service		Standard & Poor's Ratings Services		Fitch Ratings	
Country	**Rating**	**Outlook**	**Rating**	**Outlook**	**Rating**	**Outlook**
Argentina	B3	Negative	B	Negative	B	Stable
Brazil	Baa2	Positive	BBB	Stable	BBB	Stable
Czech Republiic	A1	Stable	AA-	Stable	A+	Stable
China	Aa3	Positive	AA-	Stable	A+	Stable
South Africa	Baa1	Negative	BBB	Negative	BBB+	Negative
South Korea	Aa3	Stable	A+	Stable	AA-	Stable
Hungary	Ba1	Negative	BB+	Negative	BB+	Negative
Mexico	Baa1	Stable	BBB	Stable	BBB	Stable
Poland	A2	Stable	A-	Stable	A-	Stable
Russia	Baa1	Stable	BBB	Stable	BBB	Stable
Turkey	Ba1	Positive	BB	Stable	BBB-	Stable
Ukraine	B2	Negative	B+	Negative	B	Stable

Source: Fitch Ratings, Moody’s, Standard & Poor’s, PwC

Turkey raised to Investment Grade according to Fitch (continued)

Fitch expects the Turkish economy to remain more volatile than its investment grade peers, but believes sovereign creditworthiness has become more resilient to shocks. At some point, an external financing shock and a recession are likely. However, the agency believes the country's strong sovereign, bank and household balance sheets, and economic and exchange rate flexibility provide important buffers against shocks.

Investment grade rating is likely to attract an increased foreign investor base. Longer maturity funding will become easier to obtain. However, one more rating agency needs to raise its rating to Investment Grade in order for these effects to be felt more strongly.

Reasons for a new rating action

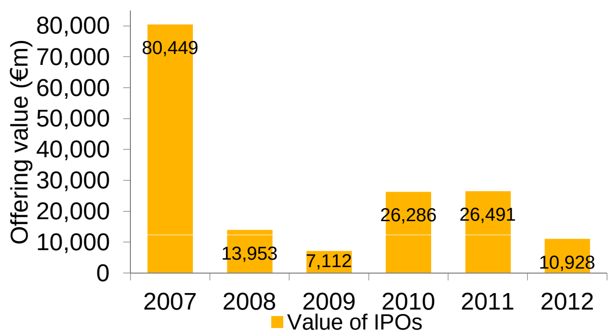
Upgrade	Downgrade
• A material and durable reduction in the Current Account Deficit • A track record of lower and more stable inflation	• A ‘balance – of – payment crisis’ triggered by an external shock or a domestic policy mistake • A worse – than - expected increasi in external debt ratios over the medium term, eg. Rapid credit growth and larger CADs • A major political shock with a material adverse impact on the economic and fiscal outlook

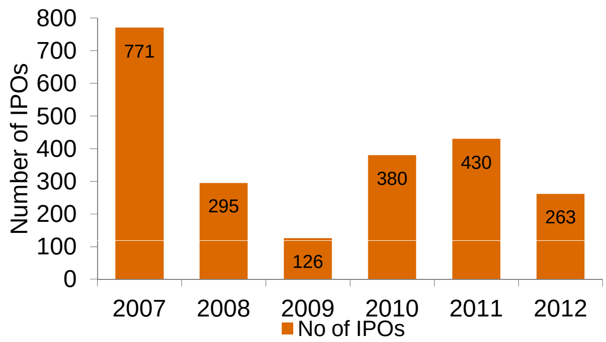
Summary of European Activity

5

Economic and political conditions plagued the European IPO markets for much of the year, however the outlook for IPOs is more optimistic than we've seen for a long time on the back of a strong final quarter

Annual European IPO activity by value and volume



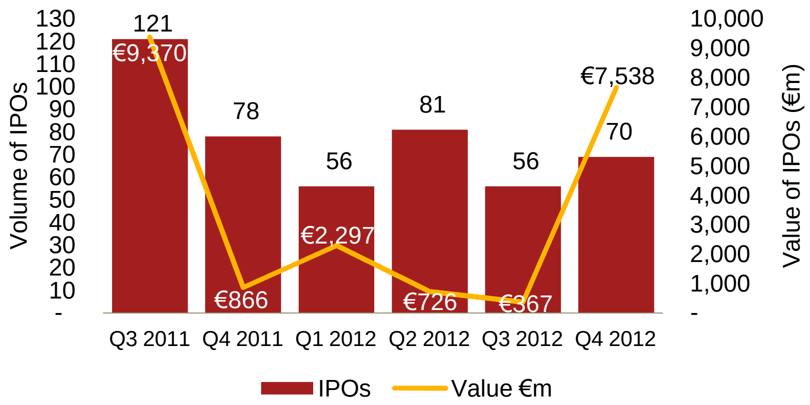


The 2012 European IPO markets performed poorly in 2012 compared with 2010 and 2011, with 263 IPOs raising just €10.9bn, compared with 430 IPOs raising €26.5bn in the prior year. 69% of proceeds were raised in the final quarter of the year, with the first three quarters plagued by the unstable economic and political conditions in the Eurozone.

London remained the top IPO destination in Europe but suffered from the absence of any jumbo IPOs such as Glencore, with 73 IPOs raising just €5.1bn in 2012 compared with 101 IPOs raising €14.1bn in the prior year.

2012 ended with an uptick in activity in the final quarter – the strongest quarterly performance since Q3 2011

Quarterly European IPO activity by value and volume



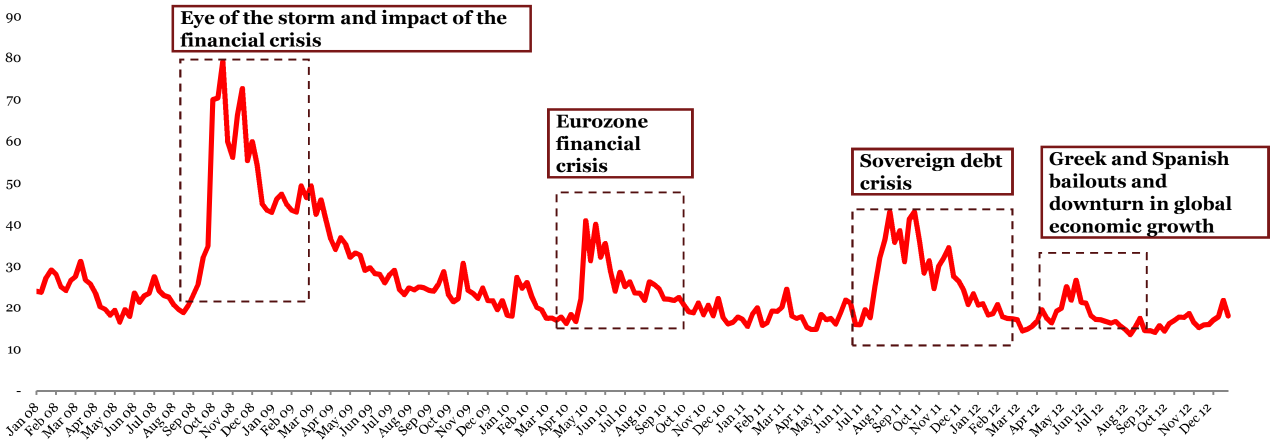
	Q4 2012	Q4 2011	Q3 2012
Total European listings comprise those with:			
No money raised	*11*	*28*	*13*
Money raised	*59*	*50*	*43*
Total number of listings	***70***	***78***	***56***

The value of IPOs in Europe increased by more than seven-fold year on year in the fourth quarter of 2012, making it the strongest performance since Q3 2011, which saw 121 IPOs raise €9.3bn. 70 IPOs raised €7.5bn in Q4 2012 compared with 78 IPOs raising €0.9bn in Q4 2011.

Q4 2012 saw the return of some higher value IPOs and was dominated by the IPOs of Direct Line and Megafon in London and Talanx and Telefónica Deutschland in Germany which all raised more than €0.75bn and accounted for 57% of total proceeds. Encouragingly, these IPOs have also performed well in the aftermarket (refer to page 6 for details on post-IPO performance).

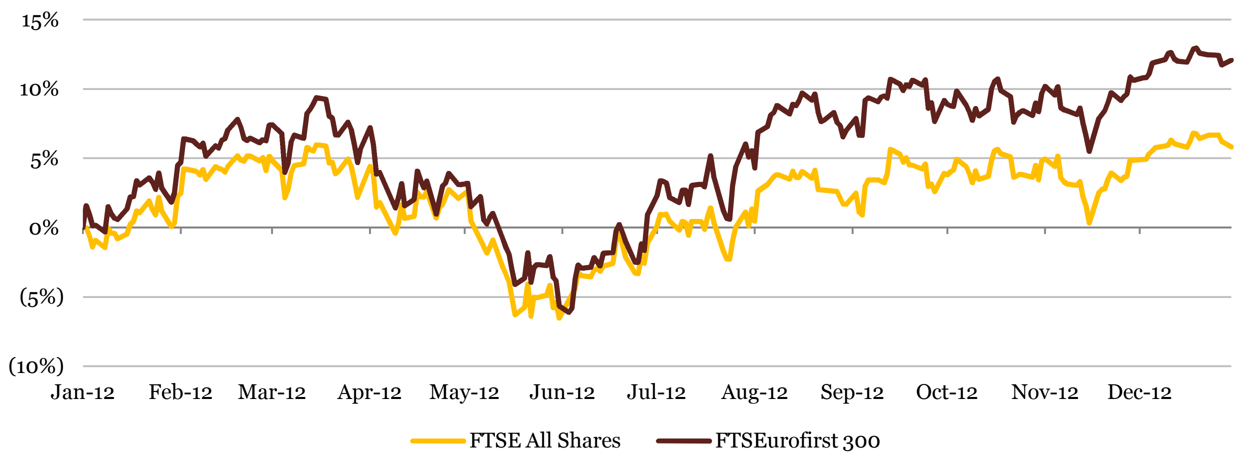
Market volatility has remained stable and stock market indices have continued to recover in the second half of the year, providing a more positive outlook for IPOs in 2013

Market Volatility Index (VIX)



Source: S&P Volatility Index

YTD Indices - trading performance



Source: London Stock Exchange website

About the Capital Markets Group in Istanbul

The Capital Markets Group comprises specialists who provide a broad range of services to companies and investment banks in connection with international capital market transactions, including:

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- Acting as reporting accountant on capital markets transactions
- Undertaking financial and business due diligence investigations
- Advising on regulatory issues
- Assisting with GAAP conversion projects
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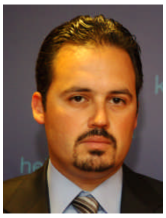
Key contacts



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Glossary of Terms

Term	Definition
BI	Borsa Istanbul
CAD	Current Account Deficit
CMB	Capital Markets Board. This is the regulatory and supervisory authority in charge of the securities markets in Turkey, making detailed regulations for organizing the markets and developing capital market instruments and institutions in Turkey.
ECM	Emerging Companies Market
EU	European Union
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
Medium Term Programme	The Medium Term Programme is a yearly rolling document with 3 years perspective and prepared by Ministry of Development and covers the main economic magnitudes used both as an indicator and a target, starts the budget process. Annual Programme, public investment Programme and budget process are executed simultaneously in harmony. The projections of main economic variables in annual program are also the inputs for the budgetary process. Ministry of Development, Ministry of finance and Undersecretary of Treasury carry out the works for expenditures and revenues in the annual Programme and central government budget.
KOSGEB	Small and Medium Enterprises Development Organization
TCC / TTK	Turkish Commercial Code Türk Ticaret Kanun

Glossary of Terms

Term	Definition
TSPAKB	Türkiye Sermaye Piyasası Aracı Kuruluşları Birliği The Association of Capital Market Intermediary Institutions of Turkey
TOBB	Türkiye Odalar ve Borsalar Birliği Union of Chambers and Commodity Exchanges in Turkey

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