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Energy Deals
Merger and acquision activity in Turkey's energy market

2012 Annual Review
16 January 2013

Contents

Methodology and terminology

Energy Deals 2012 includes analyses of cross-border and domestic deal activity in the oil, gas and electricity markets in Turkey. The analyses are based on publicly available information and encompass announced deals as of 31 December 2012, including those pending financial and legal closure. Deal values are the consideration value announced or reported while the figures relate to actual stake purchases and are not multiplied to 100%. All presented totals of deals include estimates for deals with no reported value. This document is also available at *www.pwc.com.tr/energy*.

Welcome

to the fifth edition of Energy Deals, our annual analysis of mergers and acquisitions in the Turkish energy market

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In our Energy Deals 2011 report, we stated an expectation for a livelier deal environment and greater deal totals in 2012. Growing domestic demand and investment need as well as numerous energy assets in the privatisation portfolio led us to this conclusion. However, the performance of 2012 exceeded our expectations with 45 deals producing a total deal value of USD 9.5 billion.

E.ON’s investment in Enerjisa together with the privatisation tenders for Seyitömer power plant and Boğaziçi, Gediz and Akdeniz power distribution companies constituted a large portion of this value. Unlike the previous failed privatisation round, we expect these deals to reach successful closure in 2013. Regulatory and legislative adjustments and lower deal values resulting from a more sound evaluation of the financials and growth potential of the target companies give us reason for being optimistic. The high interest for the lignite-fired Seyitömer power plant as well as TAQA's upcoming investment in the Afşin Elbistan lignite fields and power generation units are positive steps towards better utilisation of local coal resources.

The oil and gas deals landscape was relatively calm: The largest oil and gas deal of 2012 was the privatisation of the remaining 10.32% stake in Petkim, Turkey’s only petrochemicals company. Gazprom strengthened its involvement in the gas import and wholesale markets by acquiring a 60% stake in Avrasyagaz. Although Doğan Enerji’s acquisition of fuel distributor Full did not go through, investor interest in the downstream oil sector could produce a number of small deals in 2013.

Privatisation deals will continue to dominate the deals landscape in 2013. The privatisation process for Istanbul Anadolu Yakası and Toroslar is likely to be relatively easy, but the high loss and theft ratios of Dicle and Van Gölü may complicate the privatisations of these companies despite the revisions in their targets. The successful sale of Başkent Gaz may be expected in 2013 thanks to the legislative amendments that eliminated the collection risks of the company, and the privatisation process for IGDAŞ could begin subsequently. While the inclusion of lignite fields in the privatisation portfolio helps the generation privatisations, questions regarding fuel supply remain for gas-fired power plants. Once completed, the Afşin Elbistan deal could be the most important deal of 2013.

Deal totals: Back to life

The deals landscape in 2012 was much livelier than in 2011. The total deal value in 2012 was a healthy USD9.5 billion compared to a mere USD1.2 billion in 2011, whereas the number of deals increased from 29 to 45. The deals also became heftier in size, reaching an average value of USD219 million as opposed to USD43 million in 2011.

As shown in Figure 2, deal totals in 2012 came second to only the figures in 2010, which in fact is not a healthy benchmark given that some of the privatisation deals in 2010 could not be finalised subsequently. We have not restated our figures for 2010, as our methodology rests on announced deals regardless of whether they are financially and/or legally closed as of our report date.

37 deals in the utilities sector had an estimated total value of USD9.1 billion and an average value of USD246 million. The privatisation tenders for Bogazici, Gediz and Akdeniz distribution companies together with Seyitömer power plant have pushed the deal totals up. Unlike the previous round of power distribution tenders, a combination of newly-adopted regulatory incentives and lower deal values increase the chances of successful closure for the latest round. E.ON's acquisition of a 50% stake in EnerjiSA and numerous private deals indicate the healthy growth prospects of the utilities sector.

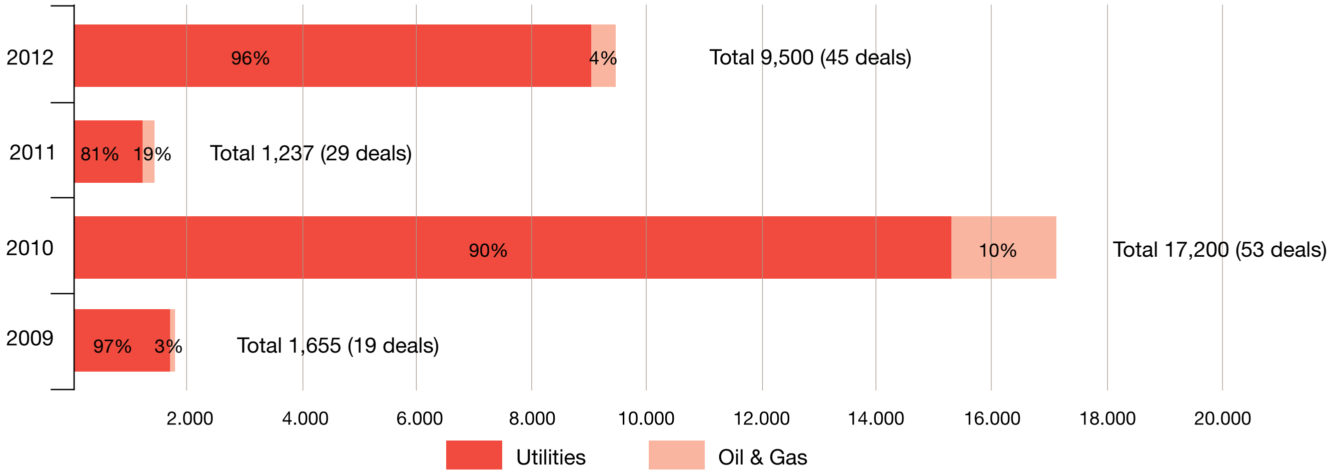
Eight oil & gas deals took place in 2012 with a total deal value of USD400 million and an average deal value of USD50 million. SOCAR, which already owned 51% of petrochemicals giant Petkim, bought 10.32% of the company at a privatisation tender for USD168 million. Gazprom strengthened its involvement in the gas import and wholesale markets by acquiring a 60% stake in Avrasyagaz. Doğan Enerji's acquisition attempt of fuel distributor Full did not go through.

Deal totals in 2012 came second to only the figures in 2010, and the deals in 2012 are likely to reach successful legal and financial closure

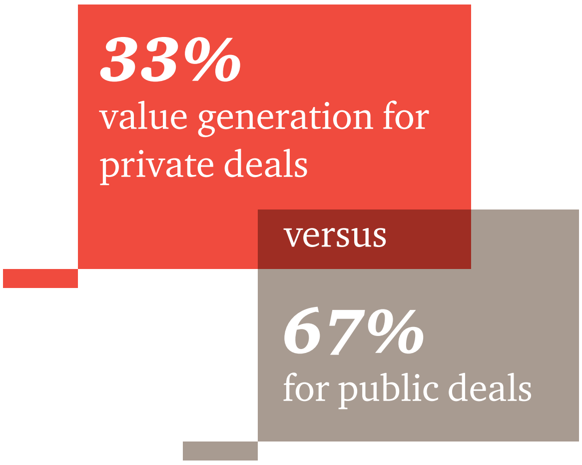
Figure 1: Total Energy Deals in 2011 and 2012

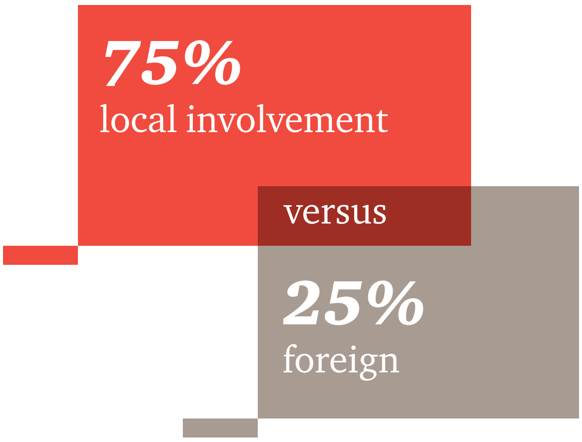
		FY11	Value (USD m)		FY12		YoY change	
	Number	Value (USD m)	Average Value	Number	Value (USD m)	Average Value	% number	% value
Utilities	24	1,000	42	37	9,100	246	54%	810%
Oil and gas	5	237	48	8	400	50	60%	69%
Total	29	1,237	43	45	9,500	211	55%	668%

Figure 2: Total deals between 2007 and 2012 by value (USD mn) and number of deals



The share of public deals by value increased from 5% in 2011 to 67% in 2012 with the privatisation deals for power distribution and generation companies as well as Petkim.





Local players' interest in the large privatisation tenders shifted the local-foreign deals split in favour of local players. The most notable foreign deals were E.ON's acquisition of a 50% stake in Enerjisa, SOCAR's acquisition of a 10.32% stake in Petkim, Gazprom subsidiary Prima Energy's acquisition of a 60% stake in Avrasya Gaz and Inter RAO's acquisition of Trakya Elektrik.

Utilities: New rules to the game

The privatisation agenda has been dominating the utilities deals landscape for the past few years. The tenders for power distribution companies in 2010 attracted very high bids, but none except one could be finalised in the subsequent years. 2012 saw the tenders repeated for Boğaziçi, Akdeniz and Gediz regions, and the offers for Istanbul Anadolu Yakası, Toroslar, Dicle and Van Gölü will be received in February 2013.

Ahead of the privatisation process, the Energy Market Regulatory Agency (EMRA) adopted a number of important regulatory incentives to encourage the potential bidders:

- The gross profit margin ceiling of retail companies was increased from 2.33% to 3.49%.

- The distribution companies with a retail licence and retail companies were allowed to charge a price indexed to the Day Ahead Market Price to returning eligible consumers. Previously, eligible consumers returned to the distribution companies and bought power at the national tariff rate during the summer months, when the wholesale company preferred to sell at the spot market at peak prices. This left distribution companies at a loss, as the distribution company had to buy power at the spot market prices and sell at the lower tariff price.

- A provision was added to the Electricity Market Tariffs Regulation to enable bidders to request a revision in the tariff parameters of the target distribution company before submitting their final bids.

- The loss and theft ratio targets of Dicle, Vangölü, Aras, Toroslar and Boğaziçi Distribution Companies were increased for the period between 2013 and 2015.

Despite the favourable regulatory adjustments, the tenders for Boğaziçi, Gediz and Akdeniz drew much lower bids than the failed earlier rounds, at USD1.96 billion, USD1.23 billion and USD546 million, respectively. Cengiz-Kolin-Limak consortium gave the highest offers for Boğaziçi and Akdeniz, whereas the highest offer for Gediz came from Elsan-Tümaş-Karaçay consortium.

Lower deal values were expected, because the high deal values observed in the earlier tenders were partly due to a misevaluation of the target companies' financials and growth potential as well as the financing environment. As the licences of these companies will expire in 2036, the latest tenders provide bidders less time to operate the business than the previous round. Finally, the USD appreciation has influenced the bidders' calculations.

The bidding deadline for Başkent Gaz, Turkey's second largest inner-city gas distribution network, was postponed from 17 December 2012 to 18 January 2013. Favorable tariffs, a high eligible consumer limit and the elimination of collection risks with the recent legislative changes make Başkent Gaz a more attractive asset, increasing its chances of a successful transfer after three failed attempts.

The last energy privatisation tender of 2012 saw 600 MW, lignite-fired Seyitömer power plant receive a USD2.25 billion bid from Çelikler İnşaat. The inclusion of lignite fields in the privatisation portfolio to be sold alongside the lignite-fired power

Regulatory incentives and lower deal values increase the chances of success in the latest privatisation round for power distribution companies

Figure 3: Utilities deal in 2012

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD mn)
2-Feb-12	Erguvan Enerji	50%	Eczacıbaşı	Turkey	n.d.
2-Mar-12	AL-YEL Elektrik	95%	Polat Energy / EEN-TK	Turkey	n.d.
5-Mar-12	Akasya Elektrik Üretim	100%	Ataç İnşaat	Turkey	n.d.
6-Apr-12	Kayseri ve Civarı Elektrik	20%	Yonca Enerji Yatırım	Turkey	16.1
9-May-12	Araklı Enerji Doğalgaz	76%	Ayen Enerji	Turkey	12.6
22-May-12	Ayas Enerji	50%	AES Entek & Koc Holding	Turkey	74.1
12-Jun-12	AYEN Ostim Enerji	24%	Aydıner İnşaat	Turkey	8.5
14-Jun-12	Galata Wind Energy	100%	Doğan Enerji Yatırımları	Turkey	215.1
14-Jun-12	Akdeniz Elektrik Üretim	100%	Doğan Enerji Yatırımları	Turkey	85.9
26-Jun-12	Enerji Yatırım Holding	50%	STFA	Turkey	75.0
27-Jun-12	Kurtal Elektrik	100%	Akfen Enerji	Turkey	3.3
27-Jun-12	H.H.K Enerji	100%	Akfen Enerji	Turkey	
29-Jun-12	AkCez	23%	Akkok	Turkey	36.0
29-Jun-12	AkCez	23%	CEZ	Czech	36.0
17-Jul-12	Trakya Elektrik Üretim	90%	Inter RAO	Russia	67.5
17-Aug-12	Alartes Enerji	51%	Gözde Girişim	Turkey	0.0
10-Sep-12	Karasular Enerji	40%	Aquila HydropowerINVEST Investitions	Germany	28.9
21-Sep-12	Akasya Elektrik Üretim	100%	Group of investors	Turkey	n.d.
19-Oct-12	EUAS power plants (10 groups)	100%	Various companies	Turkey	194.0
28-Nov-12	Sibel RES Elektrik Üretim	100%	Boydak Enerji	Turkey	n.d.
30-Nov-12	Aydemir Elektrik Üretim	99%	Utopya Turizm İnşaat İşletmecilik	Turkey	10.7
4-Dec-12	EnerjiSA	50%	E.ON AG	Germany	n.d.
7-Dec-12	Akdeniz Elektrik Dağıtım	100%	Cengiz - Kolin - Limak JV	Turkey	546.0
14-Dec-12	Boğaziçi Elektrik Dağıtım	100%	Cengiz - Kolin - Limak JV	Turkey	1,960.0
19-Dec-12	Gediz Elektrik Dağıtım	100%	Elsan - Tümaş - Karaçay JV	Turkey	1,231.0
28-Dec-12	Seyitömer Termik Santrali	100%	Çelikler İnşaat	Turkey	2,248.0
31-Dec-12	Zorlu Doğal Elektrik	100%	Zorlu Enerji	Turkey	128.2
31-Dec-12	Volt Yatırım ve Enerji	97%	Mensa Sinai	Turkey	28.6
Total					**≅ 9,100***

n.d.:not disclosed *Includes estimated deal value for undisclosed deals

plants certainly helps the privatisation prospects of these assets. The next lignite-fired power plant up for privatization is 457 MW Kangal, the pre-eligibility deadline for which is 17 January 2013.

Despite the positive signals, privatisation prospects of generation assets are still clouded by uncertainties. Questions regarding fuel supply remain for gas-fired power plants, which may complicate the privatisation tender for 1120 MW Hamitabat. Currently gas-fired EÜAŞ plants buy gas from BOTAŞ at unsubsidised prices, and any losses are cross-subsidised by income from other EÜAŞ plants. Secondly, it is unclear what kind of structure will replace the transition power purchase agreements of EÜAŞ with TETAŞ and distribution companies, which expired at the end of 2012. Thirdly, future owners of the power plants will have to make modernisation and expansion investments and fulfil environmental requirements until 31 December 2018 as per the draft Electricity Market Law.

The Turkish government showed that it is prepared to sidestep the tender process in favour of intergovernmental agreements for very large projects like Afşin Elbistan. An intergovernmental agreement was signed with the Abu Dhabi government in the first days of 2013 to announce Abu Dhabi national power company TAQA's plans to invest in the Afşin Elbistan power generation units, develop the lignite fields and construct new generation capacity. TAQA's investment and the Seyitömer deal are promising steps towards better utilisation of local coal resources in Turkey.

While numerous private deals livened up the deals landscape for utilities in 2012, perhaps the most important among them was E.ON's acquisition of Verbund's 50% stake in EnerjiSA. Following the deal, EnerjiSA aims to increase its power generation capacity from 1.7 GW to 5.2 GW in 2015 with the help of a yearly EUR200 million investment from E.ON. The company is then expected to finance its further growth to 8 GW in 2020, raising its share in the Turkish power market from the current 4% to 10%.

Oil and gas: Calm, but signs of activity

The largest oil and gas deal of 2012 was the privatisation of the remaining 10.32% stake in Petkim, Turkey's only petrochemicals company. SOCAR, which already owned 51% of the company, made the acquisition at USD168.5 million. The remaining 38.68% is traded in the Istanbul Stock Exchange. SOCAR & Turcas Enerji had bought 51% of the company for USD2.04 billion in 2007, and SOCAR bought the 25% Turcas share in the SOCAR & Turcas Enerji in 2011.

Upstream in the oil market, Norwegian Tiway Oil, which is already active in the E&P segment in Turkey, bought the oil exploration business of Petrol Ofisi. Further downstream, Doğan Enerji cancelled its plans to acquire fuel distributor and retailer Full. Full obtained a special position in the Turkish market as the company employed the COCO model successfully to achieve substantially lower prices than larger distribution companies. Although this deal did not go through, the investor interest for not only Full, but also smaller fuel distributors and fuel storage companies is likely to produce a number of small deals in 2013.

2012 also saw the acquisition of a 60% and 26% stake in Avrasya Gaz by Russian Prima Energy Trading, a Gazprombank subsidiary. The deal represents Gazprom's strategy of vertical integration in its export markets. Avrasya Gaz became one of the first four private gas importers, when it started to import 500 mcm of gas from Gazprom in 2009. Gazprom also holds a 71% stake in Bosphorus Gaz, which, along with Akfel Group, Kibar Enerji and Batı Hattı A.Ş. concluded new supply agreements in 2012 to import 2.25 bcm, 1.75 bcm, 1 bcm and 1 bcm respectively from Gazprom.

Although the Doğan-Full deal did not go through, investor interest in the downstream oil sector could produce a number of small deals in 2013

Figure 3: Oil and gas deals in 2012

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD mn)
21-Mar-12	Avrasya Gaz	60%	Prima Energy Trading	Russia	n.d.
09-May-12	Petkim	10%	SOCAR	Azerbaijan	168.5
29-Jun-12	Naturelgaz	30%	Global Enerji	Turkey	n.d.
20-Jul-12	Naturelgaz	25%	Global Enerji	Turkey	n.d.
27-Sep-12	Siyam Petrolcülük	60%	Beşir Acar	Turkey	n.d.
05-Oct-12	Mogaz	100%	Aygaz	Turkey	n.d.
27-Nov-12	Petgaz & wholesale LPG (BP business units)	100%	Rus Oteko	Russia	n.d.
12-Dec-12	Petrol Ofisi Petrol Arama	100%	Tiway Oil	Norway	7.0
Total					**≅ 400***

n.d.:not disclosed *Includes estimated deal value for undisclosed deals

Looking ahead

2013 will be driven by privatisation deals: Not only do the deals announced in 2012 have a high chance of successful closure, but new generation, power and gas distribution tenders are also likely to take place in 2013.

Regulatory and legislative adjustments along with a more sound evaluation of the financials and growth potential of the target companies have increased the chances that the latest privatisation round for power distribution companies will succeed. The tenders for Boğaziçi, Gediz and Akdeniz are likely to reach successful closure in 2013. The privatisation process for Istanbul Anadolu Yakası and Toroslar is also likely to be relatively easy, but the high loss and theft ratios of Dicle and Van Gölü may complicate the privatisation of these companies despite the recent revisions in their loss and theft targets.

Thanks to the legislative amendments that eliminated the collection risks of the company, the successful sale of Başkent Gaz may be expected in 2013.

The privatisation process for IGDAŞ, Turkey's largest inner-city gas distribution network, could begin following the handover of Başkent Gaz.

The inclusion of lignite fields in the privatisation portfolio to be sold alongside the lignite-fired power plants was an important step for generation privatisations, but questions regarding fuel supply remain for gas-fired power plants. Abu Dhabi national energy company TAQA's investment in the Afşin Elbistan power generation units and lignite fields is likely to be the most important deal of 2013.

While foreign players have shown little interest for the privatisation tenders in the power sector, they are keen to make partnerships with local private players. E.ON's acquisition of a 50% stake in EnerjiSA was the latest example of this trend. The involvement of foreign players in the Turkish market could increase significantly with further liberalisation of the power and natural gas markets. The speedy adoption of the draft Electricity Market and Natural Gas Market Laws is likely to eliminate some of the important uncertainties in these markets and clarify the institutional structure of the Energy Exchange.

We expect a number of small deals in the downstream oil market in 2013, but players may also need some time to adjust to the upcoming regulatory changes awaiting the oil and LPG sectors. According to media reports, the Ministry of Energy and Natural Resources is working on a law proposal to transfer EMRA's authority to regulate the oil and LPG markets to the Oil Works Directorate under the Ministry. If the proposal is adopted, licensing of dealerships will be carried out by local administrations, whereas Ministry of Customs and Commerce will be responsible for the regulations related to smuggling and the National Marker. Secondly, a draft Petroleum Law, which will supersede the current Petroleum Law No. 6326 and bring new regulations for the E&P segments, has recently been submitted to the Parliament.

Privatisations will shape the deals landscape in 2013

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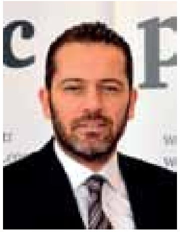

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