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Energy Deals
2013 Annual Review

Merger and acquisition activity in Turkey's energy market

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Contents

Methodology and terminology

Energy Deals 2013 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 2013, 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 sixth edition of Energy Deals, our annual analysis of mergers and acquisitions in the Turkish energy market.

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With a total deal value of USD 7bn and 40 deals, 2013 was a slightly quieter year than 2012.

Unsurprisingly, thanks to privatisations, the utilities market took the lead again in 2013. Privatisation tenders for the four remaining electricity distribution and retail assets, two thermal power plants and one big ticket natural gas distribution company accounted for most of this value. Smaller private deals, in particular those targeting renewable energy companies, added some momentum to the deal space, albeit to a limited extent.

The oil and gas segment was particularly calm in 2013. In contrast with our prediction in 2012 for several deals in the fuel retail and storage businesses only one deal involving a medium-sized fuel distribution company hit the news. Likewise, the natural gas front hosted just one deal in the wholesale segment.

Who did the job? It was the local players who overwhelmingly dominated the deal space. Foreign interest in privatisations faded away, and remained limited to only a couple of private deals in the wind power segment.

Looking ahead, increasing fragility in the Turkish economy due to political unrest, upcoming municipal elections and the less attractive thermal power plants in the privatisation pipeline immediately paint a cautious picture on the utilities front in 2014. However, a renewed and this time completed deal for Afsin Elbistan coal mine and power plant could provide a lifeline, while the oil and gas sphere is expected to remain calm. The emergence of alternative volume growth models in the fuel retail sector, which would not require hitting the M&A path, may again prove counter-productive to deal value generation. All in all, 2014 promises to be full of surprises.

Deal totals: utilities was the game

2013 was a slower year than 2012 both in terms of deal value and deal numbers. The total deal value in 2013 was USD 7bn compared to USD 9.5bn in 2012, whereas the number of deals fell from 45 to 40. The deals also became smaller in size with an average value of USD 175m as opposed to USD 211m in 2012. Figure 2 demonstrates that 2013 deal totals significantly surpassed the record lows registered in 2011.

The total number of deals in the utilities sector was 37. The tenders for Baskent Gaz, the natural gas distribution company in Ankara, and the remaining electricity distribution companies in the privatisation portfolio, namely Ayedas and Toroslar, pushed the deal totals up. Smaller private deals which especially targeted renewable energy companies signalled healthy activity in this segment. One deal that could have boosted the total deal value, Abu Dhabi national power company TAQA's consideration of investing in the Afsin Elbistan power plants and lignite fields, was delayed by the company and put the Turkish government back to square one in looking for new partners for these assets.

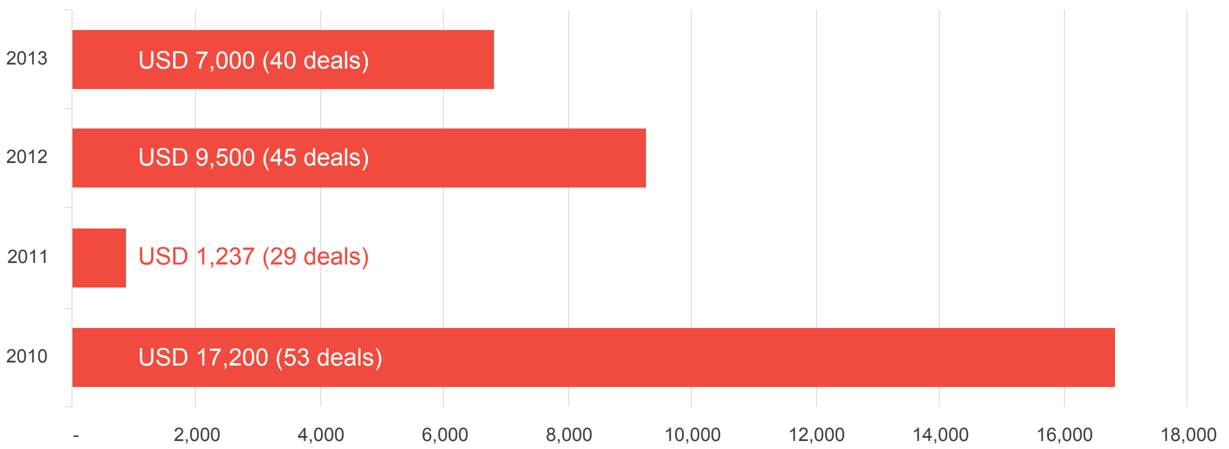
The slowing of deal activity in 2013 was more marked in the oil and gas sector where only three deals took place. Although we were expecting several deals targeting small fuel distributors and storage companies, only one deal took place in this segment. In the single deal on the gas front, Kalyon Insaat became a 12% indirect shareholder of Socar Gas.

Deal totals in 2013 were unsurprisingly dominated by the utilities market, which accounted for 37 of the 40 total deals.

Figure 1: Total Energy Deals in 2012 and 2013

	FY12			FY13			YoY change	
	Number	Value (USD m)	Average Value	Number	Value (USD m)	Average Value	% number	% value
Utilities	37	9,100	246	37	7,000	189	0%	-23%
Oil and gas	8	400	50	3	n.q.	n.q.	-63%	n.q.
Total	**45**	**9,500**	**211**	**40**	**7,000**	**175**	**-11%**	**-17%**

Figure 2: Total Deals Between 2010 and 2013 by Value (USD m) and Number of Deals



The share of public deals by value increased from 67% in 2012 to 92% in 2013 due to privatisation deals involving electricity and natural gas distribution and power generation companies.

8%
value generation by private deals
versus
92%
for public deals

98%
local involvement
versus
2%
foreign

Although large European utilities are reportedly looking to invest in high-growth emerging markets, very few Turkish companies attracted foreign investment in 2013. There was no foreign interest in privatisation deals, as the ongoing regulatory uncertainties pertaining to regulated assets are not within the risk limits of international players.

Utilities: carried by privatisations, again

The utilities deals landscape was once again dominated by privatisation deals in 2013. Following favourable regulatory adjustments in 2012, the privatisation of four electricity distribution companies, namely Anadolu Yakasi, Toroslar, Dicle and Vangolu, was completed in 2013. The acquisition of the operational rights to the first two by EnerjiSA increased the number of its licenses in this segment to three, including Baskent Elektrik. The completion of the process for Dicle and Vangolu was remarkable, as it had been postponed mainly due to very high loss and theft ratios in these regions resulting in a low level of bidder interest.

A striking development was the second tender for unbundled Osmangazi electricity distribution and supply companies, which had been privatised in 2010 for USD 485m. The Energy Market Regulatory Authority (EPDK) first replaced the executive teams of these two companies on the grounds they failed to comply with regulatory requirements and to pay Turkish Electricity Trading and Contracting Co (TETAS) for electricity supply. Then, a second tender was undertaken, as a result of which Polat Insaat became the new operator of the two companies, this time for USD 600m.

The momentum that started in 2012 with the privatisation of state power generation assets was maintained in 2013 with the successful completion of the tenders for the 475MW Kangal Coal PP and 1,120MW Hamitabat Combined Cycle PP. The latter is significant for being part of a vertical integration by the winning bidder Limak, a part of the consortium holding the operating licenses for the Bogazici Electricity Distribution and Supply Companies, which operate in the same region as this CCPP. The very low bid value of USD105m and the comprehensive rehabilitation plan slated for completion in 2016 reflect the obsolescence of the plant.

2013 also saw the fourth, and finally successful, tender attempt to transfer the operational rights of Ankara's gas distribution network Başkent Gaz, which was won by Torunlar Enerji for USD 1.16bn. Favourable tariffs, a high eligible consumer limit and the elimination of collection risks, which complicated earlier privatisation rounds, made Başkent Gaz a more attractive asset this time around.

In last year's Energy Deals we reported 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. Surprisingly, TAQA announced in August 2013 that it would defer this investment decision, prompting the Turkish government to turn to new potential partners for the project, including Qatar, China and South Korea.

In addition to these public tenders, there were numerous private deals in the utilities segment, the targets of which were mostly renewable energy companies. One reason licensed renewable energy projects are more attractive is the increasing difficulty of obtaining new generation licenses for these projects. For example, investors willing to receive a new wind power generation license from the EPDK have to wait until the next application round, which will take place in early 2015. The lack of foreign interest in the big ticket deals described above was compensated for to a limited extent with these smaller deals, where the acquirers included companies from the UK, Germany, Kuwait and Bahrain.

On the other hand, although there are a significant number of licensed natural-gas-fired PP projects waiting for financing, uncertainties in natural gas supply, and the recent amendments to the licensing regulations which now favour coal PPs explain the lack of deals on that front.

Figure 3: Utility Deals in 2013

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD m)
9-Jan-13	Ansa Enerji	44%	Matas Matbaacilik	Turkey	5
15-Jan-13	Egeli Enerji Uretim	100%	Boydak Enerji	Turkey	n.d.
17-Jan-13	Enda Enerji	4%	Egeli & Co Girisim	Turkey	3
17-Jan-13	Briza Rüzgar Elektrik Üretim	100%	Erciyas Endüstri Boru	Turkey	n.d.
25-Jan-13	Başkent Doğalgaz	100%	Torunlar Enerji	Turkey	1,162
8-Feb-13	Kangal Termik	100%	Siyahkalem Muh. & Konya Seker	Turkey	985
25-Feb-13	Aksa Enerji	3%	Goldman Sachs	USA	60
6-Mar-13	Hamitabat	100%	Limak Dogalgaz EÜAS	Turkey	105
12-Mar-13	Petrol Ofisi Gaz iletim	100%	OMV Gaz ve Enerji Holding	Turkey	3
12-Mar-13	Kapidag Rüzgar Enerjisi EÜAS	93%	Aksa Enerji	Turkey	67
14-Mar-13	Evrencik Ruzgar Enerjisi	50%	STFA	Turkey	7
14-Mar-13	Iberdrola Yenilenebilir Enerji Üretimi	100%	Güriş İnşaat	Turkey	n.d.
14-Mar-13	Karasular Enerji Uretimi	60%	Aquila Capital Wasserkraft Invest	Germany	49
15-Mar-13	Anadolu Yakasi Elektrik	100%	EnerjiSA	Turkey	1,227
15-Mar-13	Toroslar EDAS	100%	EnerjiSA	Turkey	1,725
15-Mar-13	Dicle EDAS	100%	Iskaya - Dogu	Turkey	387
15-Mar-13	Van golu EDAS	100%	Turkerler	Turkey	118
30-Apr-13	Gesa Guc Sistemleri	100%	Aksa Enerji	Turkey	0.0
30-Apr-13	Cig Enerji	40%	Kalyon Insaat	Turkey	n.d.
30-Apr-13	Kuzeykaya Elektrik Üretim	50%	Crescent Capital	Turkey	n.d.
30-Apr-13	Volt Yatirim	20%	Mensa Sinai	Turkey	17
30-Apr-13	Zorlu Jeotermal Enerji	27%	Zorlu Enerji	Turkey	15
22-May-13	Zorlu Ruzgar Enerjisi	15%	Zorlu Enerji	Turkey	3
3-Jun-13	Cogentrix's Turkish PP portfolio	100%	Bereket Enerji	Turkey	n.d.
21-Jun-13	Benal Danismanlik	100%	Aswar National	Kuwait	n.d.
24-Jun-13	Gimak Enerji Üretim	100%	Güriş İnşaat	Turkey	n.d.
13-Aug-13	Nisan Enerji	50%	Boydak Enerji	Turkey	58
16-Aug-13	Bagistas II Hydro Plant	100%	Globtec	Germany	n.d.
19-Aug-13	Sarıkavak Hidroelektrik	100%	Güriş İnşaat	Turkey	n.d.
25-Sep-13	Alpay Enerji	75%	San Leon Energy	U.K.	4
3-Oct-13	Galata Enerji	25%	Global Enerji	Turkey	n.d.
14-Oct-13	Avcilar Enerji Elektrik	100%	Ericom	Turkey	41
16-Oct-13	Kavram Enerji	100%	Fina Enerji	Turkey	n.d.
12-Nov-13	Osmangazi Elektirk	100%	Polat İnşaat	Turkey	590
4-Dec-13	Adana İpekyolu Enerji Üretim	50%	Akfen	Turkey	25
6-Dec-13	Galata Enerji	55%	Akkök	Turkey	n.d.
18-Dec-13	Global Enerji Elektrik Uretim	15%	Emkaan Investment	U.A.E.	3
27-Dec-13	Pamuk Elektrik	100%	Haldiz Insaat Otomotiv	Turkey	4
Total					**≃ 7,000***

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

Oil and gas: year of silence

Although things looked hopeful for a number of small deals in 2013, the oil and gas segment was particularly calm.

The picture in the oil and gas market in Turkey almost always fails to match the vibrancy of the power sector and 2013 was not an exception. In closing our Energy Deals 2012 report, we were indeed hopeful for a number of small deals in 2013 especially in the fuel retail and storage segments, mainly stemming from the well-known usufruct issue which caused long lasting structural change beginning in 2011. However, we witnessed only one deal in this segment: Infinity Invest Holding bought Ozan Enerji LPG Akaryakit Dagitim Co, Turkey's 28th largest distributor in 2012 according to sales volume.

The emergence of different operational models may be among the reasons for this lack of action. For instance, the fuel distributor and retailer Full negotiated with Lukoil and Shell Turcas for the long-term lease of its dealerships. Although this deal was not finalised, these talks revealed the existence of options other than straightforward acquisitions. Such alternatives indeed prove how cautious players have become in their growth plans recently.

Also worth mentioning is Socar's entry into the fuel retail market under its own name in 2013. This stirred market rumours of acquisition which included some sizeable names, although none has materialised so far.

Equally quiet, the natural gas market hosted only one deal, in which Kalyon Insaat acquired a 40% stake in Çığ Enerji, which holds a 30% stake in Socar Gas, thereby becoming a 12% shareholder in the latter. Socar Gas was established to market, in Turkey, the 1.2 bcm of gas allocated to them by the June 2010 Intergovernmental Agreement between Turkey and Azerbaijan through the end of 2016.

Figure 4: Oil and Gas Deals in 2013

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD m)
30-Apr-13	Socar Gaz	12%	Kalyon Insaat	Turkey	n.d.
29-Nov-13	Ozan Enerji LPG Akaryakit Dagitim	100%	Infinity Invest Holding	Turkey	n.d.
24-Dec-13	Enerji Yatırımları	2%	Koç Holding	Turkey	51

Looking ahead

2014 looks to be full of surprises, but you may choose to be pessimistic and you have enough number of ingredients.

Beginning with utilities, the pessimist could argue that the soon-to-be-privatised coal power plant assets Yatağan, Çatalağzı, Yeniköy and Kemerköy are unlikely to receive high bids. This may be a reasonable argument as all these assets have already completed half their asset life and are running at low efficiency rates. The recent tender announcement for these assets reflects efforts by the government to improve their attractiveness, for instance, by bundling the Yeniköy and Kemerköy plants and also putting the operational rights for the Kemerköy port area into this package. A similar measure is the absence of a requirement to use only local coal in Çatalağzı and leaving the door open for imported coal in case the buyer goes for a larger reinvestment.

One reason for excitement in this sector would be the renewed and this time completed deal for the Afsin Elbistan coal mine and power plant with one or more of those parties from Qatar, China and South Korea who are reportedly interested. In the meantime, the government is also continuing its efforts to better utilise local coal resources for power generation. Indeed, a MoU has recently been signed between EUAS and the Saudi power company ACWA for the development of the coal reserves in Konya Karapinar, the second largest lignite reserve in Turkey after Afsin Elbistan. While this is a positive development, the failure to complete the Afsin Elbistan deal with TAQA urges us to restrain our excitement until the final investment decision is taken by the involved parties.

Falling into the same category is the privatisation of IGDAS, the natural gas distribution company in Istanbul, i.e. the biggest ticket. However, this will have to wait due to the municipal elections in March 2014 and general elections in 2015.

Pessimism on the utilities front is diluted to some extent by the fact that opportunistic investors, especially those from abroad, may be eyeing distressed Turkish energy companies with valuable renewable assets. In such cases, the attractiveness of these assets stems from the increasing challenges in licensing for renewable power generation, stricter enforcement for project completions, the loosening hand of the seller due to difficulties in financing and still promising power demand.

Shifting to the oil and gas market, one should not expect big surprises in this sector either. It is true that the new Petroleum Law, which seems to be more private-investor friendly, was finally ratified this summer. However, the private sector still has a long way to go to increase its presence and stir the market with remarkable licensing deals. On the downstream side we have already started to see the emergence of alternative volume growth models in the fuel retail sector, which would not require hitting the M&A path.

The characteristics of the remaining assets in the privatisation portfolio as well as political and economic uncertainties give us reason to believe that 2014 will be a slow year.

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