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Energy Deals 2017 Annual Review

Merger and acquisition activity in Turkey's energy market

January 2018

pwc

Contents

Methodology and terminology

Energy Deals 2017 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 2017, 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%. This document is also available at www.pwc.com.tr/energy-deals

Welcome

to the 10th edition of the Energy Deals, our annual analysis of mergers and acquisitions in the Turkish energy market

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This year we are celebrating the 10th edition of our Energy Deals publication and we would like to thank you for your interest which kept it alive over this period. That was a decade of tectonic changes in the Turkish market shaped by the strong energy demand, utility privatisations, development of the power spot market, regulations in the renewable energy fuelling the growth of the private sector, and of course the end of the usufruct agreements in the fuel distribution sector.

Dominating the energy deals space over a good part of the last decade, privatisation of the power generation and distribution, and the natural gas distribution companies generated around USD 27.5 billion in total, almost half the total estimated value of USD 46.4 billion (when adjusted for the cancelled electricity and gas distribution privatisations) raised in all the 345 disclosed deals since 2008.

Fast forward to today… The downward trend in the total deal values since 2013 had a break in 2017, with a total value of USD 3.45 billion in 33 deals versus USD 2 billion in 30 deals in 2016. We reason this recovery in 2017 with the gradual normalisation in the political environment, relative stabilisation in Turkey's credit outlook and the sustained comparative advantages in the renewables market.

Utility deals kept dominating the space with 58% in deal values in 2017, though much less than the 90% in 2016. This share drop was mainly due to one big ticket in the oil and gas front, the sale of Petrol Ofisi, which made up the remaining 42% of the deal value in one go.

On its own, however, the deal number and value in the utility segment grew by 25% and 11% year-on-year, to end in 30 and USD 2 billion, respectively, in 2017, mainly catalysed by the sustained attractiveness of the wind and hydro power assets changing hands in considerable capacities. And one novelty was the share of privatisations remaining limited to 23% in the total utility deal value due to the lack of big tickets in the baskets… yes, those were the days…

Sale of Petrol Ofisi to Vitol for USD 1.45 billion stood up as the energy deal of the year. As a result, the total deal value in the oil and gas space in 2017 exceeded the 2016 sum by six times with just 3 disclosed deals versus 6 deals the year before. This deal has also boosted the share of the deals involving foreign investors in the total figure from a mere 7% in 2016 to 51% in 2017.

Looking ahead... Now that the Petrol Ofisi deal is behind us, it is not hard to predict that the momentum in the utilities market would keep shaping the energy deal environment in Turkey in 2018, unless a surprise happens among the big names in the oil and gas space. And, given the lack of the potential big tickets on the privatisation shelf on the utilities front, the figures will be shaped by the private deals.

Deal totals: Good recovery but still missing the good old days…

2017 saw 33 energy deals with 72% year on year increase in total value to USD 3.45 billion from USD 2 billion in 2016. This resulted in 57% jump in average deal value to USD 105 million per deal in 2017, from USD 67 million in 2016.

Despite this year on year recovery, 2017 was still subpar compared to the last 9-year averages: USD 4.8 billion of average total annual deal value and 35 deals per annum, producing USD 140 million of average value per deal.

30 deals of USD 2 billion in total have been disclosed in the utilities segment in 2017. More diversified than last year, they included power and gas distribution in addition to power generation. The majority of the utility transactions concerned renewable energy assets in private deals.

One novelty in 2017 was the diminished contribution of the privatisations to the total value of the utility deals. It remained very limited to 23% with eight completed privatisation tenders, for the first time below 40% since 2011. All were in power generation and concerned the remaining HPPs in the privatisation portfolio. No improvement was made with respect to Bursa and Aliaga CCGTs waiting on the privatisation list for the last couple of years, nor to Afsin-Elbistan B, the largest lignite-fired power plant in Turkey, the privatisation of which is on the agenda since 2008.

The 22 private utility deals, on the other hand, made up 77% of the total deal value in this segment. Except two in power and gas distribution, they were all in power generation. And in that, except one thermal and another in nuclear, all concerned renewable power companies.

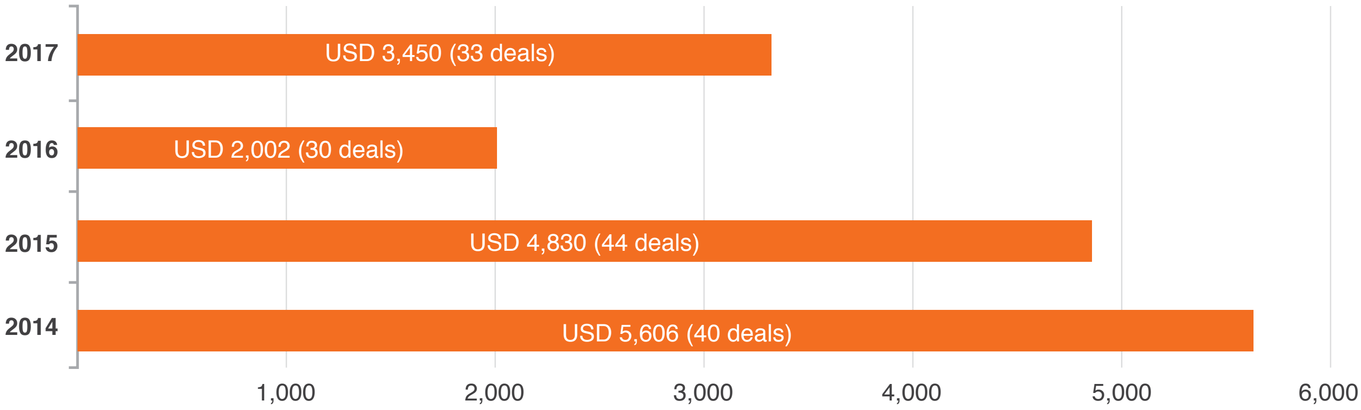
Albeit still behind the recovery in 2015, the oil and gas deals grew over seven times year on year to USD 1.45 billion in 2017 with only three disclosed deals in this segment. The sale of Petrol Ofisi to Vitol, was the ultimate highlight of the all energy deals of the year. The remaining two transactions were in fuel storage and natural gas trade.

*Although the total deal value increased by **72%** year on year, the 2017 figures still lagged behind the decade's averages*

Figure 1: Total Energy Deals in 2016 and 2017

	FY16			FY17			YoY change	
	Number	Value (USD m)	Average Value	Number	Value (USD m)	Average Value	% number	% value
Utilities	24	1,800	75	30	2,000	67	25%	11%
Oil and gas	6	202	34	3	1,450	483	-50%	618%
Total	**30**	**2,002**	**67**	**33**	**3,450**	**105**	**10%**	**72%**

Figure 2: Total deals between 2014 and 2017 by value (USD m) and number of deals



With the fading share of privatisations in total deal value, the share of the private deals had a significant rebound to 86% in 2017 from 43% in 2016. This is the highest performance by the private deals since 2011, when they hit 95%.

86%
of value generated by private deals
versus
14%
for public deals

49%
local involvement
versus
51%
foreign

Significantly different from the year before when there was almost no foreign involvement, 2017 hosted a good deal of it at 51% of the total value, mainly generated by the Petrol Ofisi - Vitol transaction. This is the highest rate by the foreign players since 2011, when their share reached 59%.

Utilities: Leading the pack as usual...

As it has been the case during the nine previous years, utilities kept leading the energy deals stream in 2017 as well. 30 deals amounted to USD 2 billion, 11% higher year on year.

A significant shift in balance saw the share of the private utility deals taking over the public with 77% in total utility deal value, for the first time since 2011.

The largest private deal value was generated in the acquisition of the operational rights to Osmangazi Power Distribution and Retail Companies, OEDAS and OEPSAS, by Zorlu Enerji for USD 360 million. The deal subject was sold to Dedeli Yatirim through privatisation in 2010 for USD 485 million, however was transferred back to the Privatisation Administration in 2013 due to the failures in financial closure and operations.

The other deal in the same segment was the full consolidation of Ulug Power Distribution and Retail companies under Limak Holding, who bought 67% of the companies' shares from its partners Cengiz Holding and Kolin İnşaat for an undisclosed sum.

A similar deal took place in gas distribution, where Kolin Insaat bought 34% of Izmir Natural Gas Company from Turkerler Insaat to increase its shares to 90%.

The largest power generation deal by capacity was by Limak Enerji, who bought the 517 MW Cetin HPP and Dam project from Statkraft for an undisclosed consideration.

Another significant HPP and dam transaction was by EnergoPro of Czechia, who bought 280 MW Alpaslan 2 HPP and Dam from EnerjiSa. The company completed two other smaller deals to acquire 14.5MW Kartaltasi HPP from Laskar Enerji and 13.5 MW Saray HPP from Mertler Enerji.

The rest of the renewable energy deals are rather for smaller capacities and the developments in YEKDEM, the feed-in-tariff system, lead the factors keeping up the momentum in this space for the last couple of years. Also, YEKDEM will close to new applications by 2020 and to be permanently replaced by YEKA, the regulation concerning the renewable energy resource zones. Already in enforcement since 2016, YEKA is basically designed to award the renewable energy generation licences with auctions to determine the power purchase price.

On the wind PP front, the deals bundle with the largest capacity at 250 MW of operating assets, was closed by Fernas Insaat. The company bought the 95 MW Sebenoba, Karakurt and Kapidag WPPs for a total of USD 100.5 mn from Aksen Enerji and the 15 MW Incesu HPP for USD 15 mn from Tamyeli Enerji. Fernas' fully-owned subsidiary, Nas Enerji was also in action and acquired the 127 MW Samli WPP for USD 111 mn from Aksa Enerji and the 29.6 MW Datca WPP from Dares, a JV between Demirer and Enercon, for an undisclosed consideration.

The buying spree by Guris Holding in the renewables universe continued in 2017 as well. The company increased its total WPP portfolio size to 685 MW with the acquisitions of 88 MW Afyon-2 WPP project from Turkerler Insaat and 120 MW Yuvacik WPP project from Yuva Enerji again for undisclosed sums.

Sancak Holding was also among the WPP project portfolio buyers in 2017. The company acquired three projects of 149.4 MW in total, namely Ardicli, Yamactepe and Baglar WPPs from Akuo Energy of France, and is understood to increase the size of its WPP portfolio to above 200 MW with this move.

Borusan - EnBW Energy Investments continued its WPP portfolio growth by buying 27 MW Kiyikoy WPP in operation from Aksa Enerji for USD 60.1 million.

Albeit small, still worth mentioning was a solar power deal by a foreign player. Al Aboud Holding of Egypt and Saudi Arabia bought a 6.6 MW SPP portfolio from Tekno Ray in Burdur in Southwest Turkey, and the company is reportedly planning to grow its solar power portfolio in Turkey.

The only disclosed deal on the geothermal front was by another foreign player, Feronia Partners of Switzerland, who acquired the 24 MW Bestepeler GPP from Cevik Grup for USD 77 mn.

One novelty to the Turkish energy deals arena was in the nuclear segment. The CKK Consortium by Cengiz Holding – Kalyon Insaat – Kolin Insaat bought 49% share in the Akkuyu Nukleer A.S, responsible for the construction of the first nuclear PP in Turkey, from the Russian company Rosatom. The 4,800 MW Akkuyu NPP will be built in Mersin with a Build-Operate-Transfer model. The construction is expected to start in 2018 and the NPP is already granted a guaranteed power purchase price of USD cent 12.35 / kWh by the Turkish Government for half its output for the first 15 years of operation.

The thermal power front was rather silent due to the ongoing uncertainty in the Turkish natural gas market concerning the security of gas supply, sustained reluctance for full market liberalisation and lack of progress in the regulation of the capacity market mechanism. The only disclosed deal in the thermal power market came from the lignite segment, where Park Elektrik acquired Konya Ilgın Elektrik owning the 500 MW lignite-fired PP for USD 150 mn.

The public utility deals arena, on the other hand, hosted only eight transactions in 2017, all privatisations concerning the operational rights of 16 hydropower assets of 323 MW in total. Some bundled and some not, these were offered in eight tenders and generated a total of USD 474 million for the state coffers. This yielded USD 1.5 million of per MW value, 25% less than in 2016. Similar to the previous years, none attracted foreign interest.

The largest privatised hydro asset bundle included the 178 MW of Menzelet and Kilavuzlu HPPs, the highest bid of USD 365 million which came from Entek.

Looking at the assets waiting on the privatisation shelf, the aforementioned unfavourable conditions in the Turkish natural gas market are also assumed to be the cause of lack of action by the Privatisation Administration to tender the 1,432 MW Bursa and 180 MW Aliaga CCGTs.

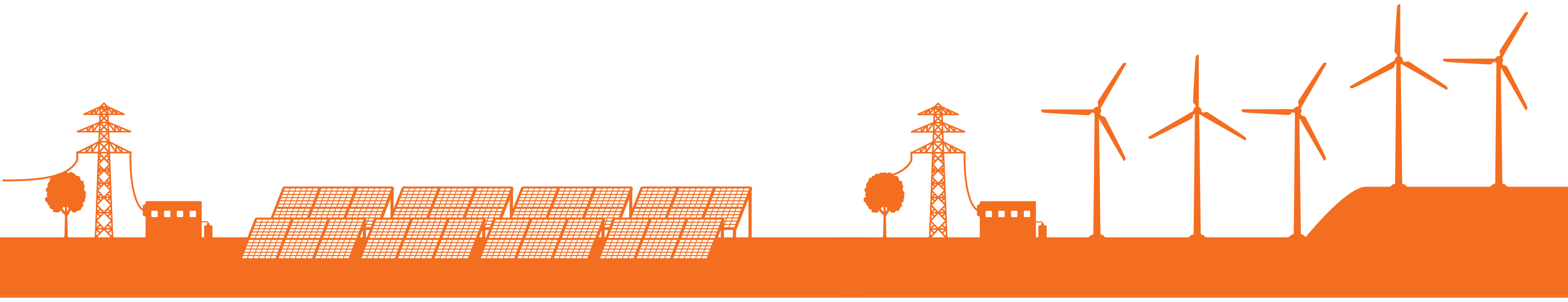


Figure 3: Utility Deals in 2017

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD m)
6-Jan-17	Ulug Enerji	67%	Limak Yatirim	Turkey	n.d.
2-Feb-17	OEDAŞ and OEPSAŞ	100%	Zorlu Enerji; Zorlu Holding	Turkey	360
18-Mar-17	Konya Ilgın Elektrik Uretim	100%	Park Elektrik Madencilik	Turkey	150
31-Mar-17	Anamur, Bozyazi, Mut-Derincay, Silifke, Zeyne HEPP	100%	ERG Altyapi Insaat	Turkey	2
18-Apr-17	Zen Enerji	20%	Altay Endustriyel Yatirimlar	Turkey	1
18-Apr-17	Burdur SPP	100%	Al Aboud Holding	Egypt - Saudi Arabia	n.d.
4-May-17	Alpaslan 2 HEPP and Dam	100%	Energo-Pro	Czechia	n.d.
1-Jun-17	Ardicli, Yamactepe and Baglar WPP	100%	Sancak Group	Turkey	n.d.
3-Jun-17	Laskar Enerji Uretim and Mertler Enerji Uretim	100%	Energo-Pro	Czechia	n.d.
13-Jun-17	Isider, Korda, Kovanci, Derbent Enerji Uretim	100%	Kuzeybatu Elektrik Uretim	Turkey	34
15-Jun-17	Kiyikoy WPP	100%	Borusan Enerji Yatirimlari	Turkey - Germany	60
20-Jun-17	Akkuyu Nukleer	49%	Cengiz Holding; Kalyon Insaat; Kolin Insaat	Turkey	n.d.
30-Jun-17	Bestepeler Enerji	51%	Feronia Partners	Turkey - Switzerland	77
18-Jul-17	Yenice HEPP	100%	Kilic Enerji	Turkey	37
16-Aug-17	Afyon-2 WPP	100%	Guris Insaat	Turkey	n.d.
18-Aug-17	Izmir Dogalgaz Dagitim	34%	Kolin Enerji	Turkey	n.d.
7-Sep-17	Degirmendere, Karacay, Kuzuculu, Sucati HEPP	100%	Abdulmecit Modoglu Insaat	Turkey	9
8-Sep-17	Cine HEPP	100%	Demars Insaat Turizm	Turkey	25
8-Sep-17	Hatay Sebenoba, Manisa Karakurt, Kapidag WPP	100%	Fernas Insaat	Turkey	101
15-Sep-17	Dinar 2 HEPP	100%	Ergok Insaat-Super Elektrik	Turkey	3
19-Sep-17	Menzelet HEPP; Kilavuzlu HEPP	100%	Entek Elektrik	Turkey	365
21-Sep-17	Cetin HEPP	100%	Limak Holding	Turkey	n.d.
29-Sep-17	Balikesir Samli WPP	100%	Fernas Insaat	Turkey	111
23-Oct-17	Datca WPP	100%	Nas Enerji	Turkey	n.d.
27-Oct-17	Sua Elektrik Uretim	100%	Polat Enerji	Turkey - Canada - France	n.d.
31-Oct-17	İncesu HEPP	100%	Fernas Insaat	Turkey	15.
1-Nov-17	Yuvacik WPP	100%	Guris Insaat	Turkey	n.d.
7-Nov-17	Tortum HEPP	100%	Has-Kar Harita Kadastro Muhendislik	Turkey	15
22-Nov-17	Manyas HEPP	100%	Samsun Makina Sanayi-Aria Teknoloji	Turkey	17
29-Dec-17	Aksu Temiz Enerji	70%	Samsun Makina Sanayi	Turkey	30
Total					**≃ 2,000***

n.d.: not disclosed

*: Includes estimated deal value for undisclosed deals

Oil and gas: One-deal show...

The long awaited big ticket in the oil and gas deals space finally materialised in 2017 and that was almost it. Only three deals were disclosed but this was more than enough to generate more than USD 1.45 billion, seven times the total oil and gas deal value in 2016. Similar to 2016, all the disclosed oil and gas deals involved foreign players on either side of the table.

The drums rolled and Petrol Ofisi was sold by OMV to Vitol for USD 1.45 billion, after a dynamic sales process which reportedly attracted a number of global players. This is the largest foreign acquisition in the Turkish energy market in the last 10 years.

Petrol Ofisi is Turkey's largest fuel retailer by volume and station number. It sold 10.7 million tons of petroleum products in total at its more than 1,700 stations, storage and jet fuel facilities. Vitol, on the other hand, is a global energy and commodities company shipping around 351 million tonnes of crude oil & products annually. This acquisition gives Vitol a strong access to the Turkish market with strong fuel demand which reached around 35 million tonnes in 2016.

One of the two other disclosed oil and gas deals was the full consolidation of Delta-Rubis Depolama, a petroleum and product storage company with assets on the Southeast coast of Turkey, under the French company Rubis with the acquisition of the 50% share from Delta for an undisclosed consideration.

And the last one was a similar consolidation in the natural gas import, quite a hot segment amid the market liberalisation debates in Turkey. Sen Group bought 71% of the shares which they did not already own in Bosphorus Gas Import Company from Gazprom and has become the sole owner. Bosphorus Gas currently has the import rights of 2.5 billion cubic meter of pipe gas per annum from Russia (Gazprom) to Turkey and also holds a spot LNG import license to supply gas to the Turkish market from alternative sources.

Figure 4: Oil and Gas Deals in 2017

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD m)
6-Jan-17	Delta Rubis Petrol	50%	Rubis	France	n.d.
3-Mar-17	OMV Petrol Ofisi	100%	Vitol Investment Partnership	Netherlands	1.450
1-Jun-17	Bosphorus Gaz Corporation	71%	Adnan Sen - private investor	Turkey	n.d.
Total					**1,450**

10-year overview: A decade of tectonic changes

The tectonic changes over the last decade have shaped the future of the Turkish energy scene.

In the ***electricity market,*** beyond the commitments to the EU accession process to liberalise the energy markets, the underlying factor behind the fundamental changes is the strong demand which could no longer be met by the vertically integrated state power company. In fact, since 2008, total power demand in Turkey increased by 46% to reach around 290 billion kWh in 2017. And as a result of the critical steps in liberalisation, the number of licensed private players along the power value chain increased from 317 in 2008 to 1,964 in 2017.

The growth on the supply front was striking where the 42 GW of installed generation capacity in 2008 almost doubled to 78.5 GW by 2017 and, through privatisations now only 26% of it belongs to the state power company. And, thanks to improvements in the feed-in-tariff regulation, the very negligible share of the renewables in the total capacity mix at the beginning is now around 20%. In the meantime, the tightening grip of EMRA in licensing in the generation segment in particular increased the attractiveness of the brownfield investments so the number of mergers and acquisitions.

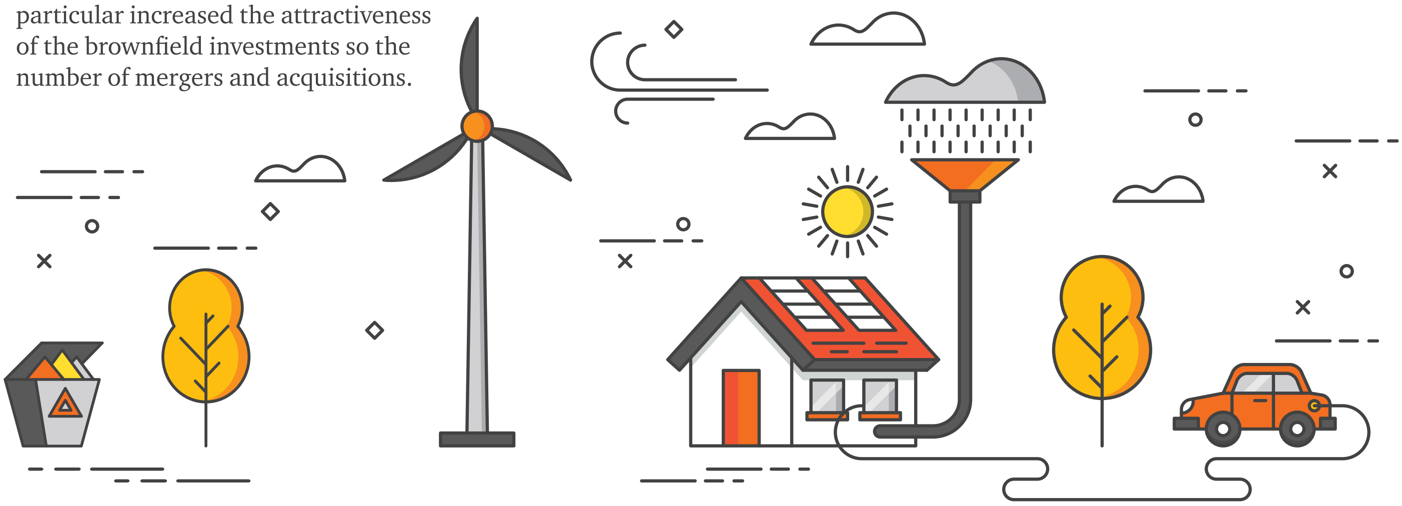
The deals in the distribution and retail, on the other hand, has been all privatisations except the recent transfers of few of the same licenses to new buyers. They constituted the majority of the mega deals and largest share in deal totals.

The transformation in the ***natural gas market*** over the last decade has not been as swift although it is the main fuel in power generation and residential heating in Turkey, and the demand increased by 59% to reach around 51 billion cubic meter in 2017.

The supply, almost all imported, is still de facto monopolised under the state company BOTAS with its domination over the use of the pipelines and storage despite the third-party access regulations. Also, wholesale pricing is not a function of established variables but still determined with an undisclosed formula at unpredictable intervals. On the other hand, distribution operations, once defined a municipal task, are now fully privatised and reflected to our deal figures with a couple of mega deals among them.

The sea change of the last decade in the ***oil and gas market*** was the landmark decision in 2010 by the Competition Authority of Turkey which limited the duration of the once longer-term usufruct contracts between the fuel distributors and the dealers to 5 years. This enabled the dealers to change their distributors much before than agreed in their original contract and therefore deprived the distributors the required time to fully amortise their station investments. And the EMRA decision to temporarily cap the margins only added to their financial problems. Contrary to expectations however, these did not end in a consolidation wave to keep afloat, but instead in the proliferation of smaller distributors working under the COCO model.

Not much changed in the upstream, on the other hand, despite the ratification of the new Petroleum Law which offers a more favourable environment for foreign investment. TPAO, the state upstream company still holds a large majority of the E&P licenses.



Deal totals: 345 deals generated USD 46.4 billion

The last 10 years saw 345 disclosed energy deals with a total estimated value of USD 46.4 billion, producing an average value of USD 134 million per deal. The utility deals have always led the figures: 86% of the total value and 86% of the total number.

Dominating the deal numbers and values over a good part of the last decade, privatisation of the power generation and distribution, and the natural gas distribution companies in Turkey generated around USD 27.5 billion in total, almost half the total estimated value of USD 46.4 billion raised since 2008. Net of the cancelled tenders, which will be mentioned on the following pages, the share of the public deals reached 60% of the total estimated deal value between 2008 and 2017.

Figure 5: Total Energy Deals between 2008 and 2017

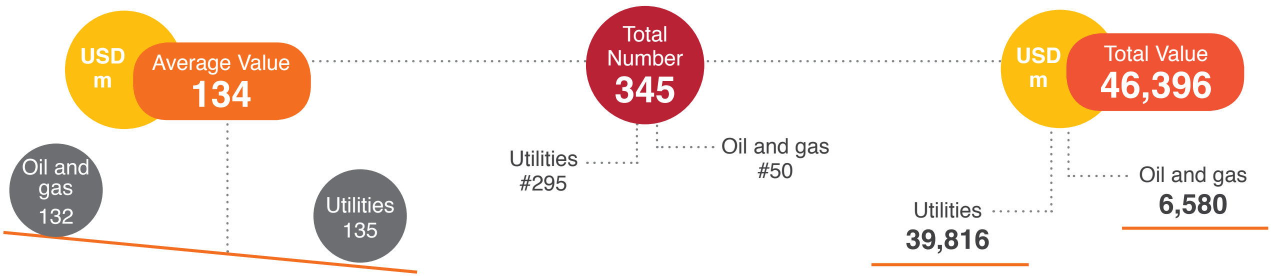
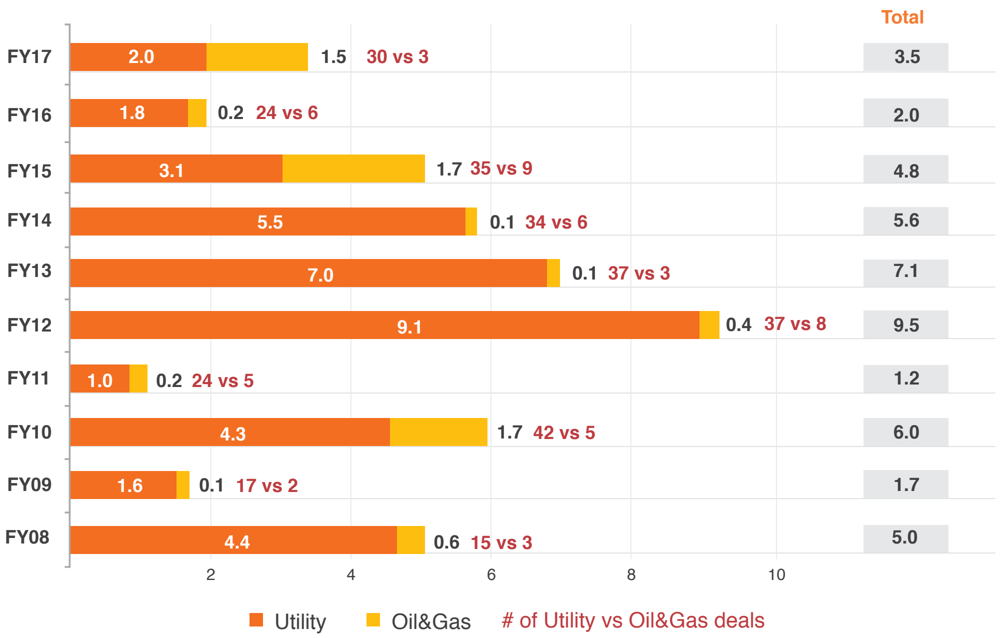


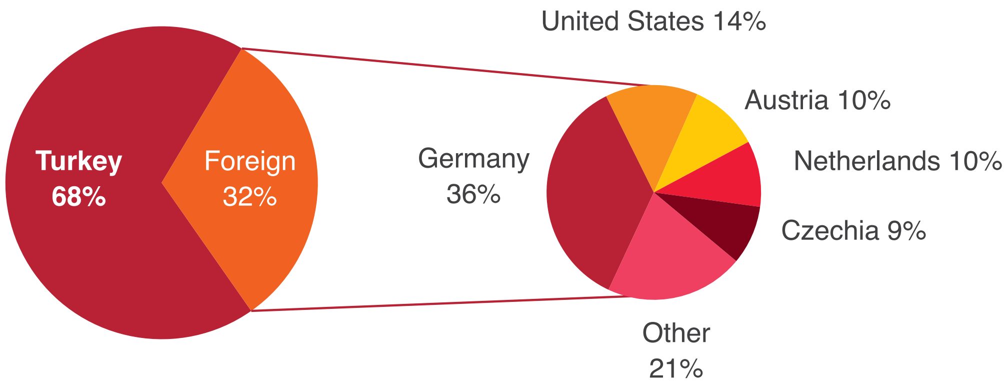
Figure 6: Energy deal values and numbers between 2008 and 2017 (USD billion)



Foreign involvement in the energy deals greatly fluctuated throughout the last decade, driven by the level of threats posed by the global financial crisis and, the political and regulatory risks in Turkey. The booming years of foreign interest were 2011 with an interest in thermal power generation and upstream O&G, 2015 when the IFC and EBRD got very much involved in power projects and 2017 mainly boosted by Vitol's acquisition of Petrol Ofisi. In total, the estimated value of the deals involving foreign interest constituted 32% of the total.

A closer look at the country breakdown shows a good amount of interest from the EU countries led by Germany and the US, mostly in power generation and distribution.

Figure 7: Nationality breakdown in energy deals between 2008 and 2017



Utilities: All-time front runner!

Hosting most of the changes on the regulatory space and all the privatisations, utilities have always led the deal figures during the last decade. 295 announced and closed deals in this space generated USD 39.8 bn, 86% of the total estimated energy deals value and 86% of total disclosed deal number between 2008 and 2017.

During this period, nine of 12 closed mega energy deals with the value exceeding USD 1 billion were in the utilities front. They were all in power generation and distribution privatisations with one exception in gas distribution privatisation.

The reason why we emphasise 'closed' deals in this section is quite significant indeed. The number of the mega deals above would be 15, however, six mega deals worth USD 11.2 billion, again all privatisations tenders, were cancelled due to failure in financial closing.

And albeit managed to secure the finance to complete the takeover, most of the acquirers of the closed deals on the list above are known to suffer in loan payments due to same problems in addition to the regulatory requirements which do not always reflect the realities of the concerned distribution region and also the rapid depreciation in Turkish Lira.

Another detail worth considering among the utility deals is the share of those involving renewable energy assets. As emphasised before, thanks to the improvements in the renewable energy regulation and especially in the feed-in-tariffs, which made YEKDEM a comparative advantage for the Turkish market, the share of the renewable energy assets reached around 20% in the total installed generation capacity in Turkey. Intensifying especially over the last couple of years, the number of deals concerning a renewable energy asset exceeded 170 in the total figure of 295 and the total value of these deals is estimated around USD 7 bn.

Figure 8: Mega utility deals closed between 2008-2017

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD m)
18-Apr-14	Yenikoy Elektrik & Kemerkoy Elektrik	100%	IC Ictas Enerji	Turkey	2,671
28-Dec-12	Seyitömer Termik Santrali	100%	Çelikler Taahhüt İnşaat	Turkey	2,248
14-Dec-12	Boğaziçi Elektrik Dağıtım	100%	Cengiz - Kolin - Limak JV	Turkey	1,960
15-Mar-13	Toroslar Elektrik Dağıtım	100%	EnerjiSA	Turkey - Germany	1,725
19-Dec-12	Gediz Elektrik Dağıtım	100%	Elsan - Tümaş - Karaçay JV	Turkey	1,231
15-Mar-13	Anadolu Yakasi Elektrik	100%	EnerjiSA	Turkey - Germany	1,227
1-Jul-08	Baskent Elektrik Dagitim	100%	EnerjiSA	Turkey - Germany	1,225
25-Jan-13	Başkent Doğalgaz	100%	Torunlar Enerji	Turkey	1,162
12-Jun-14	Yatagan Termik Santrali	100%	Elsan Elektrik	Turkey	1,091

Oil and gas: Ups and downs with limited contribution…

The oil and gas deals have never had us off our seats, making us to use the term 'hibernation' frequently to define the state of the affairs on that front over the last decade. All the disclosed deals were closed contrary to the drama in the utilities. 50 deals were disclosed and generated USD 6.6 bn, 14% of the total estimated energy deals value and 14% of total disclosed deal number between 2008 and 2017.

During this period, only 3 mega deals with the value exceeding USD 1 billion happened in the oil and gas front, all in the downstream. Petrol Ofisi set the tone at the beginning and end of the decade.

25 of the disclosed oil and gas deals over the last decade were in fuel distribution and generated USD 4.4 billion. This record still fell short of the consolidation expectations fuelled by the usufruct decision by the Competition Authority in 2010 which concerned around 7,500 station owners and the following margin interventions by EMRA which put a significant pressure on the distributors. Instead, it caused the exit of TOTAL, for instance, an important player in the Turkish market.

The amendments in 2013 to the Turkish Petroleum Law, on the other hand, have proved inadequate so far in attracting foreign investment to the upstream segment in Turkey. So it is still TPAO, the state upstream company holding a large majority of the E&P licenses. Also, most of the recent news concerning this segment is about the annulment of the licenses assumingly due to the lack of feasible finds and reluctance of the private investors in particular to further invest in the designated acreages.

The relatively light approach by EMRA in the enforcement of the national stock liability regulation requiring the refineries and the fuel and LPG distributors to hold minimum 20 times of their average daily sale volume in their own or leased storage facilities has been to some extent reflected into the lack of deals activity in the storage segment.

Figure 9: Mega oil and gas deals closed between 2008-2017

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD m)
3-Mar-17	OMV Petrol Ofisi	100%	Vitol Investment Partnership	Netherlands	1,450
23-Oct-10	Petrol Ofisi	54%	OMV	Austria	1,390
15-Aug-15	Socar Turkey Enerji	13%	The Goldman Sachs Group	United States	1,300

Looking ahead

Now that the Petrol Ofisi deal is behind us and the potential big tickets on the utilities privatisation shelf have long disappeared, making strong predictions is even more difficult... Luckily, however, we still have some clues about what are to shape the Turkish energy deals space in 2018.

For one, political stability, recovery in Turkish Lira and ease off in the regulatory uncertainties will be the major watch-outs to unlock the deal potential in the Turkish energy market.

To start with the utilities, the renewable energy deals are expected to continue to be the locomotive of the private utility transactions. The turns to be taken by the energy administration in YEKDEM will be the main anchor for the motivation behind and the foreign interest in them. Underlying the significance of the licenses, the bidders in YEKA tenders are already placing negative bids by accepting to be exempt from the YEKDEM incentives for local equipment and to be paid below the market clearing price. This raises concerns about project financing under the current market conditions and therefore may make these new licenses acquisition and partnership targets.

Having discharged most of the remaining assets on its list so far, the Privatisation Administration is still expected to launch the tenders for 12 HPPs. The HPPs on the list are 115 MW Akkopru HPP, 84 MW Camlica 1 HPP, 76 MW Kesikkopru HPP, 69 MW Demirkopru HPP, 60 MW Seyhan-1 HPP, 60 MW Topcam HPP, 56 MW Derbent HPP, 32 MW Camligoze HPP, 26 MW Kepez HPP, 8 MW Seyhan-2 HPP, 6 MW Yuregir HPP and 6 MW Kepez 2 HPP. A similar local bidder profile is expected to show interest in these assets if launched for tender in 2018. And, despite not producing 'deals' as referred in this report, the YEKA tenders for the wind and solar licenses will still constitute significant activities in the market.

The sky gets even darker for the natural-gas fired PPs, which are suffering of the lack of improvement in the security of gas supply, the liberalisation of the gas market and the capacity mechanism regulation. And, the recent move by BOTAS to impose substantial increases in its tariff to the power plants asking to buy more than 50% of their gas from the company is only to add to their misery, as the alternative sources are not enough to supply around 9 GW of capacity immediately. And procurement at higher tariffs either from BOTAS or the spot LNG market would easily crowd them out of the merit order. So, albeit announced in 2015, the privatisation of the 1,432 MW Bursa and 180 MW Aliaga CCGTs are not expected to go ahead any time soon. Likewise, the CCGTs belonging to private players are not expected to be a deal subject either in 2018.

The break of the deal silence on the coal-fired PP front is not among the strongest expectations either. For one thing, the public transactions in this segment are now in the form of per-kWh bids which are not in the scope of our reports. Also, despite the purchase price guarantees to the plants running on local coal, it is understood that the market still needs some time to build confidence in the future technical and financial performance of these assets. And, after all these years without progress in the Afsin-Elbistan B privatisation, we are gradually losing our hopes for it to take place soon.

Going down the utilities value chain, no sign of awaiting deals in the electricity distribution and retail segment exists for now. However, similar consolidations to those happened in 2017 may not be surprising. Also, as we have been emphasising for the last couple of years, the high amount of debts of these companies is still threatening their financial sustainability due to the significant depreciation in TL since their privatisations. This may lead to share sales to refinance their foreign currency-denominated privatisation debt.

Albeit not considered a 'deal' within our reporting scope, an upcoming trend worth considering for both the electricity and gas distribution companies is the IPOs. Some names are already pursuing this option and, depending on the general investment environment, they may materialise in 2018.

In the previous section, we mentioned about the lack of momentum in the oil and gas deal environment despite the shake up in the contract structures and the other regulatory interventions. But now there is an upcoming regulation which could cause a real deal stir in the fuel distribution segment in the short to medium term. EMRA is to tighten its grip on the enforcement of the national stock requirement regulation and, as of 1 January 2018, it will stop relying on the players' periodical declarations and have instant online access to the storage facilities for continuous follow up. The penalties for the failure in compliance by any player includes license revocation.

This move by EMRA is to add significantly to the operational expenses of the liable parties and therefore is expected to result in consolidation especially among the smaller players, or make them easier acquisition targets for the bigger ones. It may also fuel the considerations with respect to the storage sector as well, either for vertical integration or again consolidation among themselves for larger capacity offers.

Last year, we said that "our fingers are still crossed for some more momentum", and the deal environment in 2017 did not disappoint us too much. Now, we hope that this recovery is not one-off and the wheels will keep turning with even higher number of closings in bigger deals.

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2018-0001