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2021

Energy Deals

Merger and acquisition activity in Turkey's energy market

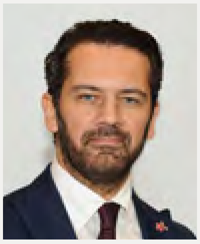
Contents

Methodology and terminology

Energy Deals 2021 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 2021, 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 pwc.com.tr/energy-deals

Welcome

to the 14th edition of the Energy Deals, our annual analysis of mergers and acquisitions in the Turkish energy market



Murat Çolakoğlu
Energy, Utilities and Resources Industry Leader

Engin Alioğlu
Deals Leader

Fossil fuel prices hitting records amid the climate change outcry to shape the commitments at the COP26 made 2021 a very exceptional year, reminding all of us that green transformation at the global scale needs more than what we have been promised and delivered on so far by the national governments and the business world.

Against this background, global decarbonisation coupled with plentiful capital and an economy emerging from the pandemic have continued to drive strong M&A activity through 2021. At home, the Turkish energy market too managed to further boost the deals momentum, without leaving a room for a potential pandemic-induced tiredness.

Total deal figures in 2021 carried the momentum that had started in 2020 to new highs. In 2021, 40 energy deals generated an estimated total value of more than USD 2.8 billion, marking 155% increase from USD 1.1 billion in 2020. The absence of the foreign investors in the Turkish energy deal space in 2020 continued in terms of numbers in 2021 as well. However, with Actis' deal in Uluğ Enerji Dağıtım we witnessed an important foreign interest in the electricity distribution space.

39 utility deals were disclosed in 2021 with an estimated total value of USD 1.5 billion, trebling the USD 500 million in 2020. The majority of the targets were again in renewable energy including privatisations and the rest in thermal power generation, gas distribution, electricity distribution and EV charging infrastructure – a novelty on our deal list. The boost behind the renewable energy deals was driven by the rush to acquire the assets which will keep benefiting from the previous YEKDEM scheme with better payments terms compared to the current scheme.

Unlike 2020 with six oil&gas deals dominating the total deal value, 2021 was quiet on that front with only one deal. This said, the disclosed value of USD 1.3 billion in 2021 more than doubled the total deal value of USD 600 million in 2020. Contrary to our expectations, the consolidation moves ignited in 2020 in the fuel and LPG retail segments did not continue in 2021. And the lack of progress in the liberalisation of the gas market sustained the lack of investor interest despite the hype of the resource discoveries in the Black Sea.

Looking ahead... Almost two years after the break out, the pandemic is still here at full force with new mutations as the global inequalities in the vaccine roll out prevents the full suppression. The need for the Turkish energy administration to align its actions with the global best practices shaped by the Paris Climate Agreement and to create shields to protect the market from further shocks is even more critical to enhance resilience through the uncertainties. The deal figures underscore the fact that the interest in the Turkish energy market together with its high-quality assets and workforce is there. Now more than ever, it is up to the policy makers to make Turkey gain the safe haven status with a long-term view.

Deal Totals

Upward and onward despite the pandemic...

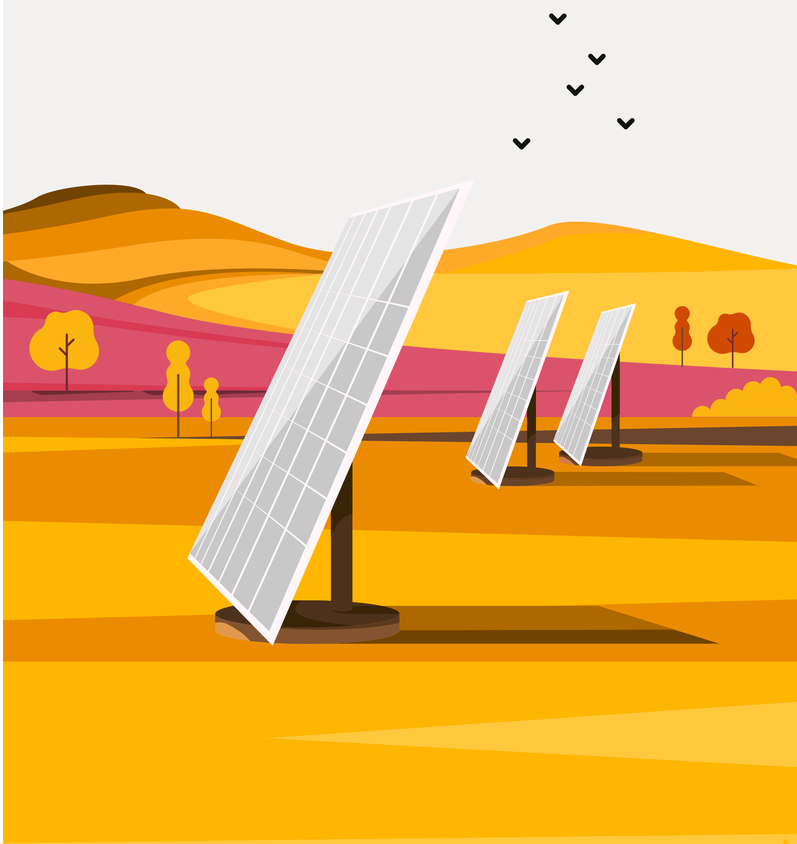
The total deal value which had started to gain momentum in 2020 confidently continued its upward trend in 2021 against all odds of the new variants of the Covid-19 virus and the macroeconomic shocks in the domestic market.

40 energy deals generated an estimated total value of USD 2.8 billion, marking a stellar increase of 155% from USD 1.1 billion in 2020. And, the average deal value had a 40% jump from USD 50 million in 2020 to USD 70 million in 2021.

39 deals were disclosed in the utilities segment in 2021 with an estimated total value of USD 1.5 billion versus only USD 500 million generated by 16 deals in 2020. Most of the deals in 2021 targeted renewable energy assets similar to the past years, and the rest concerned thermal power generation, power distribution and EV charging infrastructure, a novelty in the deals universe.

Among the utility deals, privatisations were significant in number after some break in the previous years, with seven tenders (six HPPs and one gas-fired PP), versus only one in 2020.

Although the number of the oil & gas deals fell from six in 2020 to only one, the total deal value more than doubled from USD 600 million in 2020 to USD 1.3 billion.

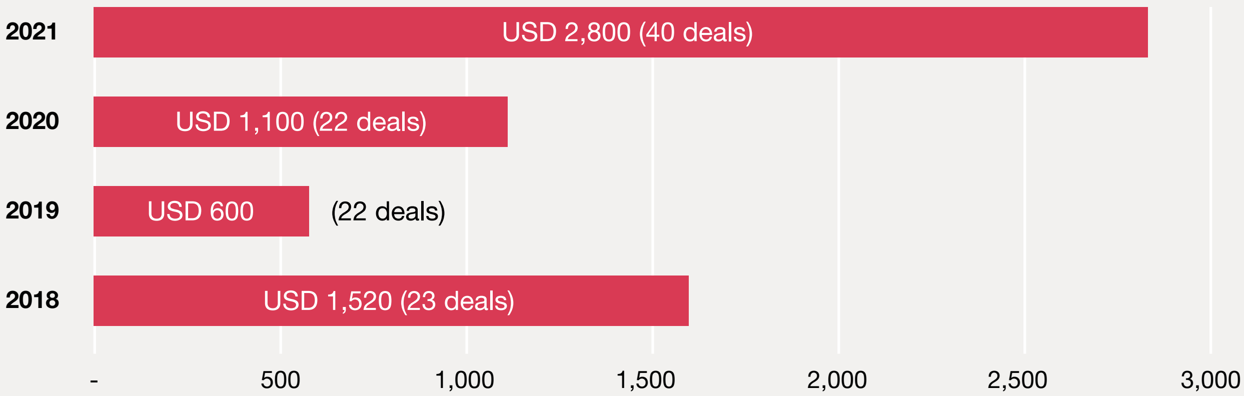


The recovery in the total deal value in 2020 gained further momentum in 2021 against the lasting odds in both global and domestic markets

Figure 1: Total Energy Deals in 2020 and 2021

	FY20			FY21			YoY change	
	Number	Value (USD m)	Average Value	Number	Value (USD m)	Average Value	% number	% value
Utilities	16	500	31	39	1,500	38	144%	200%
Oil and gas	6	600	100	1	1,300	1,300	-83%	117%
Total	**22**	**1,100**	**50**	**40**	**2,800**	**70**	**82%**	**155%**

Figure 2: Total deals between 2018 and 2021 by value (USD million) and number of deals



Seven privatisations made the public deals space crowded again whereas the number of the private deals reached 33

The pause on the privatisation front was broken in 2021 with seven privatisations, six for HPPs and one for a gas-fired PP, versus only one tender in 2020.

Although foreign investors were still largely absent, the nature of the ones who came to invest even in rather quiet segments is still remarkable

The absence of the foreign investors in the Turkish energy deal space in 2020 continued in terms of numbers in 2021 as well. However, the nature of the ones including an infrastructure fund who targeted an otherwise quiet segment like power distribution and retail was still remarkable.

Utilities

Remarkable recovery with some foreign push...

Although 2021 started with a brand new encouragement on clean energy from the new administration in the US, the global utilities industry still had to tackle tough challenges. Extreme weather events challenged the grids' reliability and resiliency. Cyberattacks on critical infrastructure increasingly made headlines. Last but not the least, an "unprecedented increase" in global gas prices resulting from high demand and reduced supply put extreme financial pressure on energy suppliers to the extent to push more than twenty energy companies in the UK, for instance, to go under in a matter of two months, making their price promises to customers undeliverable.

At home, Turkish players have been on a relatively safer side shielded to some extent with long-term fixed-price gas supply contracts and the government's efforts to curb the inflation. This said, tariffs of natural gas used by power plants and by industrial enterprises in the country had to go up significantly followed by an increase in the residential tariff in the first day of 2022.

Directly relating to the deal environment, in addition to the 8.6% of y-o-y increase in power demand during the first ten months of 2021, the other highlights in the Turkish utilities market included the announcement of the new YEKDEM scheme and the start of the fourth tariff period in the electricity distribution and retail segments, both referring to the 2021-2025 period.

The new YEKDEM mechanism applies for 10 years to the renewable energy based power plants which are commissioned between 1 July 2021 and 31 December 2025. In addition to the feed-in tariff, an additional "local content" incentive per kWh will apply for 5 years.

The concerns about the potential revenue erosion in the new YEKDEM scheme, which was initially planned to fully switch the feed-in tariffs from USD to TRY in a devaluation environment, were eased to a certain extent when the new tariff levels and the local content support have been made subject to a basket-based adjustment (PPI, CPI, USD and EURO with a balanced breakdown) on a quarterly basis, subject to a cap in USD.

The fourth tariff period in the electricity distribution and retail segments (2021-2025) brought some key improvements to the regulatory terms. For the distribution network, these improved terms include the increases in the upper limits for allowed investments and OPEX which are reflected to the end-consumer bills, inclusion of the planned maintenance into the regulated OPEX and improvements in efficiency and quality incentives. And, on the retail front, in addition to the inclusion of the G&A into the regulated OPEX and improvements in efficiency and quality incentives, the companies can now pass the fees charged by the banks on the letters of guarantee onto the tariff and are eligible for an incentive payment between 0.3% and 1%, if the parent company is listed to the Borsa Istanbul, the Turkish stock exchange.

Under this vibrant demand and regulatory climate in 2021, the number of utility deals rose from 16 in 2020 to 39 in 2021, with estimated total deal value jumping 200% from a mere USD 500 million to USD 1.5 billion, driven by the renewable energy deals.

The biggest variety to the utility deal space, which has been dominated by the renewable energy transactions for a long time, was the acquisition of the Uluğ Enerji Dağıtım by the British Actis Long Life Infrastructure Fund for an undisclosed sum, marking a surprising return of the foreign players to the Turkish power distribution and retail segment. The target holds the licence to operate Uludag Electricity Distribution Co. and wholly owns Uludag Electricity Retail Co., which together serve around 3 million customers in the north-western cities of Bursa, Canakkale, Balikesir and Yalova. The acquirer, on the other hand, is a global investor in sustainable infrastructure with particular focus on energy, digital and real estate assets.

Another deal in the distribution space came in the gas front. Ahlatci Holding acquired Enerya, a Turkish company engaged in natural gas distribution, from STFA Yatirim Holding A.S. (70%) and Partners Group Holding AG (30%). Enerya's gas distribution license covers 10 provinces including Antalya, Konya, Karaman, Erzincan, Denizli, Aydin, Aksaray and Çorum and the company is reported to serve more than 1.4m customers.

Among the power generation deals, privatisations made considerable improvement with seven tenders in 2021 versus only one in 2020. All bids by local players for six HPPs and a NG-fired PP, the largest bid of USD 104 million was placed for the 61 MW Topcam HPP by Bilgin Guc Santralleri, which already owns a large generation portfolio made up of WPPs of 370 MW, HPPs of 476 MW and a 890 MW CCGT.

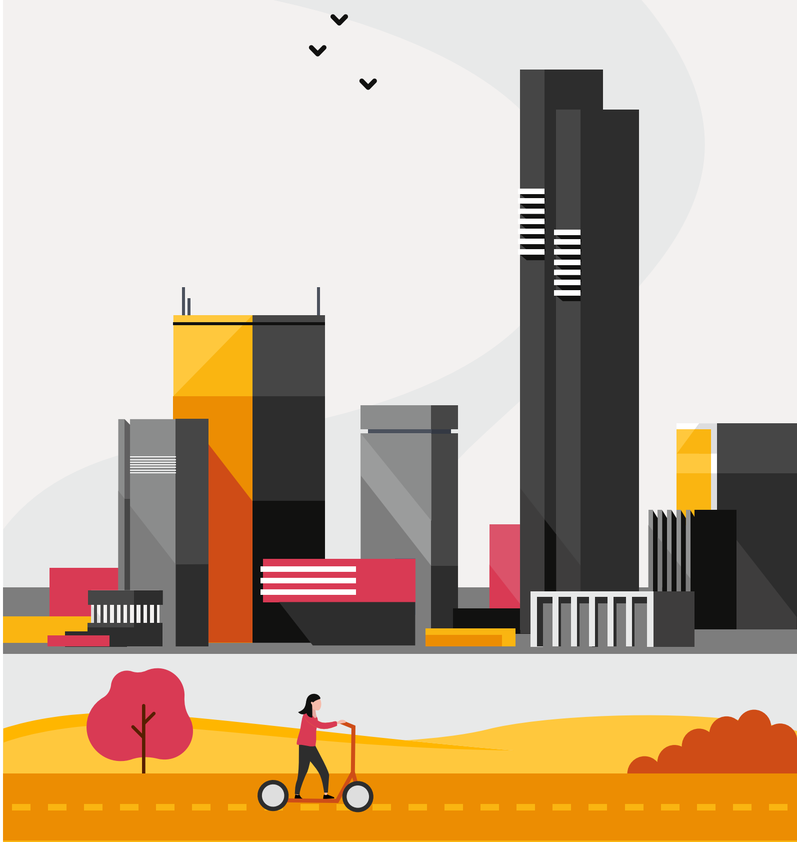
The winning bids for the remaining five HPPs between 12 MW and 115 MW of capacity ranged between USD 1 million and USD 65.6 million. Together with the winning bid for the Topcam HPP above, these values yielded an average of USD 1.15 million per MW. Among the winners is Aydem, a vertically integrated player present in generation, distribution and retail and a familiar name in our energy deal reports in recent years. The remaining four are smaller companies who are understood to be developing a generation portfolio by benefiting from the privatisations. Please note that these bids were for the operational rights of the concerned HPPs for 49 years.

The single thermal power plant in the privatisation package was the 253 MW Dilovasi NG-fired PP. Colakoglu Metalurji, who owns steel products manufacturing facilities in the Dilovasi region, held the B-O-T concession of the same plant until 2017 and this time came back to place the winning bid of USD 14.8 million for its full ownership. The company currently operates two more NG-fired PPs of 213 MW in total.

The remaining deals in power generation realised by the private players were all for renewable energy plants and all but four by local players. Seventeen deals were for solar power plants (SPP), which for the first time topped the renewable deal figures. And among the rest, six were for wind power plants (WPP), two for HPP, two for a geothermal power plant (GPP), one for biogas energy plant + SPP and one for waste recovery and energy from waste (EfW).

Before going into the details of these deals, it is important to clarify the impact of the changes in YEKDEM on them. First, note that almost all of the renewable energy assets on the 2021 deal list are benefiting from the fully USD-denominated feed-in-tariffs of the first scheme except a couple of ones whose eligibility already expired. Behind the acquisition of the ones whose eligibility coming to a close in a few years, we understand that the buyers are building muscles for the merchant market or confident in their capability to engage into such alternatives as long-term PPAs with large buyers. And, the motivation to invest in an asset with longer subscription to that version of YEKDEM (up to 2030) is clear: benefiting from the USD-denominated feed-in-tariffs as long as they can in a lingering devaluation environment.

Consequently, there is yet to be any disclosed deal directly by the new TRY-denominated YEKDEM scheme subject to quarterly adjustments as explained above. However, power generation is a portfolio business and the local players in particular are now understanding that acquiring a few assets now is not enough to build a resilient portfolio in the long term and instead they will have to keep investing. So, for the newcomers to the renewable energy market in particular, the new YEKDEM scheme is believed to have provided the much needed confidence to keep growing their portfolios by starting to buy assets now subscribed to the previous scheme and then have a smooth transition to the new period with new acquisitions of the assets coming online after July 2021.



Following these clarifications, now let's dive into the details of the renewable energy deals by private players, which took place in 2021 and first give the spotlight to the deals with foreign involvement.

Starting with the four renewable deals involving foreign players, the 13 MW Gumuskoy GPP was acquired by the consortium between Albioma (75%) and Egesim (25%) for an undisclosed sum. Albioma is a French SPP and biomass plants developer. With this acquisition, it is understood that the company is targeting to further diversify its renewable energy portfolio with its partner Egesim, a local holding company, the EPC arm of which is specialised in GPP construction in Turkey. The exact scope of this acquisition includes the license to use the geothermal resources for power generation until 2040. Albioma did not stop there and added another geothermal asset to its portfolio just before the end of the year. The company acquired the 18 MW Kuyucak GPP from Turcas for USD 24.3 million.

Another foreign investor who enlarged their portfolio in the Turkish renewable energy market in 2021 is Japan Energy Capital 1 LP (JEF), a decarbonized energy investment fund established by two Japanese companies Enechange Ltd. and Looop Inc. Daiwa Energy & Infrastructure Co. Ltd. and Hokuriku Electric Power Company, again both from Japan, are reported to invest in the fund, which is aiming to invest in decarbonization and ESG, with a total investment goal of 1 billion USD.

In line with this vision, JEF acquired a combined unlicensed SPP portfolio of 22.9 MW from three local players (Motus, Besni and Demges). The attractiveness of such unlicensed SPP portfolios lies in their eligibility for the feed-in tariff which is currently USD 13.3 / MWh. This was the Fund's second SPP acquisition in Turkey, following their deal for the 10-year joint operation rights of a 13 MW SPP in 2020.

Within the class of foreign investors, EBRD is back to the Turkish energy deals arena with a small investment in Biotrend Cevre ve Enerji Yatirimlari, a Turkish company engaged in integrated waste management and waste to energy production. The company has been listed on Borsa Istanbul since April 2021 and EBRD became a minority shareholder with a 6% equity stake for USD 20 million. This move serves EBRD's aim to promote private sector participation in municipal waste management in Turkey.

Among the renewable energy deals with local acquirers, 2021 was a very eventful year for Polat Enerji, one of Turkey's biggest and oldest WPP owners, and Adnan Polat Enerji Yatirimi (APEY), which owned a small SPP portfolio prior to the deals below.

First, marking a large-scale foreign exit from the Turkish market, Public Sector Pension Investment Board of Canada and EDF Energies Nouvelles of France sold their 45% shares each in Polat Enerji to Adnan Polat Enerji Yatirimlari (APEY) for undisclosed considerations. Added to the 10% stake held by its subsidiary Batiyel Enerji, APEY became the sole owner of Polat Enerji. As a result, APEY, which is in turn fully owned by Polat Holding, came to own a total of 706 MW of renewable energy portfolio (599 MW operating and 107 MW under construction). Then, in a subsequent deal, Polat Holding sold its 50% share in APEY to Maxis Venture Capital (owned by Is Bank) again for an undisclosed sum.

Another exit by a foreign player was by STEAG GmbH of Germany. The company sold its Turkish subsidiary STEAG Ruzgar Suloglu Enerji Uretim ve Ticaret A.S. operating a 60 MW WPP for an undisclosed sum to Entek Elektik Uretim A.S., owned by Koc Holding. This acquisition marked a diversification in the buyer's large portfolio of operating HPPs in Turkey.

A deal with a sizeable SPP portfolio had Kinesis Enerji, a local player, further diminish its presence in the Turkish renewable energy market in order to intensify its focus on the European markets. The company sold its 39 SPPs of 61.7 MW to Esenboga Elektrik Uretim A.S., another local player. With this transaction, the buyer increased its SPP capacity to 118 MW.

Toprak Yenilenebilir Enerji, the renewable energy subsidiary of a Turkish leather and textile manufacturer, was a very active buyer on the SPP front with five deals targeting a total of 33.7 MW, for which the company paid USD 38.9 million. Another SPP deal with a disclosed value was the acquisition fifteen unlicensed SPP of 12 MW in total for USD 13 million by Utopya Turizm, a local tourism and construction company with investments in renewable energy.

SPPs have become an attractive acquisition target for the local venture capital funds too. Arz Venture Capital Fund, another local clean energy investor citing pension funds among its investors, acquired an undisclosed amount of shares from Antges Enerji, a local energy company with operating SPP capacity of 31.2 MW.

Another SPP deal with a similar buyer was the acquisition of ARF Bio Yenilenebilir Enerji Üretim A.Ş., owner of a portfolio with a 5.7 MW SPP and a 4.8 MW biogas energy plant, by Re-Pie Arf Venture Capital, a Turkish alternative investment fund.

The remaining SPP deals concerned smaller portfolios ranging between 1 MW and 16 MW, which changed hands among local players from different industries including tourism and construction.

On the WPP front, the deals with local players on both sides were for portfolios of smaller sizes. The largest one was the consolidation by Demirer Family of their separate subsidiaries operating the 56 MW Mare Manastır and 42 MW Dares Datça WPPs under single control.

The 40 MW Metristepe WPP, the YEKDEM benefit of which ends in 2022, was sold to Inova Elektrik, a local renewable energy company, for an undisclosed sum.

And finally, a deal for 18 MW WPP has given the signals of a gradual vertical integration by Turkcell Energy Services (Enerjicell), a wholly-owned subsidiary of the Turkish GSM operator Turkcell.

A novel segment in the utility deal universe is the EV charging infrastructure. Despite the lack of meaningful government support to the EVs, certain players are betting on a brighter future in this automotive segment. One of them is Enerjisa, one of the largest vertically integrated utility company in Turkey. The company acquired the majority shares in Esarj, a local company with services including EV charging stations and infrastructure.

Not eligible as a 'deal' to be added to our figures, but it is still worth mentioning the IPOs that took place in the Turkish energy sector, emerging as an alternative financing method to diversify away from high leverage as a hedge against the wild volatility in the Turkish economy. Six IPOs were completed in 2021, all but one in thermal power segment: Galata Wind Energy, Biotrend Environment and Energy Investments, Aydem Renewables, Can-2 Thermal, Kartal Renewables and Margun Energy. The common investment thesis among these renewable energy companies has been the reliable income thanks to the feed-in tariffs.

Another class out of our definition of 'deals' but still needs mentioning is the YEKA tenders launched by the state to award the private investors with licenses to build and operate large WPPs and SPPs capacities while providing them with fixed tariffs for 15 years and incentives for using locally manufactured equipment.

Between 2017 and 2019, two tenders were awarded for wind capacity and one for solar, as you may find the details on our previous Energy Deals reports. The pandemic-related pause in completing the expected tenders was the case in 2021.

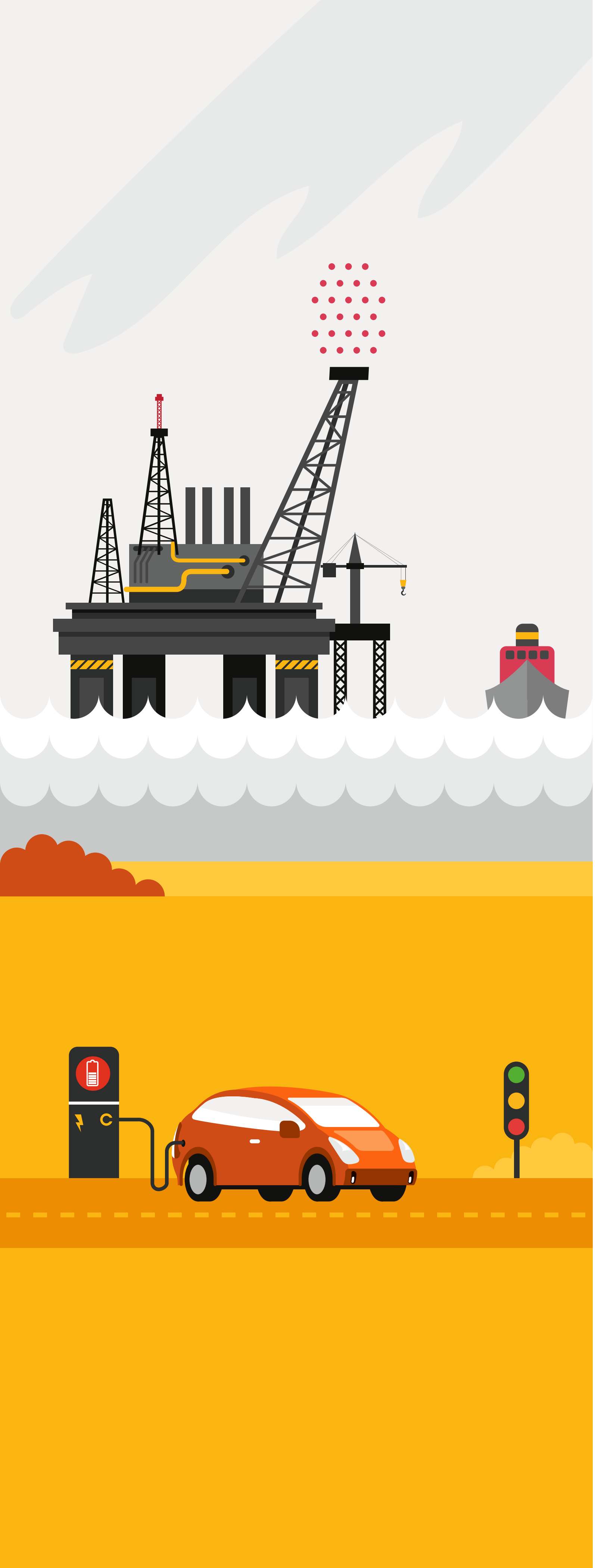
In the meantime, out of the 1 GW Karaman SPP capacity licensed to Kalyon Enerji in 2017 in the YEKA WPP-1 tender for a fixed tariff of USD cent 3.48/kWh for 15 years, 550 MW has been already commissioned.

And the company has recently secured an ECA-backed syndicated project finance facility of USD 812 million with a 12 year term, which is joined by UK Export Finance (UKEF) and J.P. Morgan Chase in addition to six Turkish banks. This highlights the ongoing attractiveness of the YEKA projects to international financial institutions despite the increasing risk profile in the Turkish market.

Figure 3: Utility Deals in 2021

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD mn)
4-Jan-21	Angora Elektrik Uretim	100%	Margün Enerji Üretim	Turkey	20.3
14-Jan-21	Enerya Enerji Yatırım Holding	100%	Ahlatçı Holding	Turkey	n.d.
26-Jan-21	Gumuskoy Geothermal Power Plant	100%	Albioma (75%), Egesim (25%)	France, Turkey	n.d.
28-Jan-21	Tortum Elektrik	100%	Pamukova Yenilenebilir Enerji	Turkey	n.d.
1-Feb-21	Fortuna 3-4-5-6-7-8 Enerji	100%	Toprak Yenilenebilir Enerji	Turkey	6.7
25-Feb-21	STEAG Turkey and STEAG Ruzgar Suloglu Enerji	100%	Entek Elektik Uretim	Turkey	n.d.
12-Mar-21	Kinesis Enerji (39 solar power plants portfolio)	100%	Esenboga Elektrik Uretim	Turkey	n.d.
15-Apr-21	Polat Enerji	90%	AP Enerji Yatirimlari	Turkey	n.d.
29-Apr-21	Arf Bio Yenilenebilir Enerji	100%	Re-Pie Arf Girişim Sermayesi	Turkey	n.d.
4-May-21	Mislina 13 Enerji Uretim	100%	Toprak Yenilenebilir Enerji	Turkey	1.3
3-Jun-21	Unlicensed SPPs of Motus & Besni Groups-Demges Elektrik	100%	Japan Energy Capital 1 LP	Japan	n.d.
6-Jul-21	Boyut Grup Enerji Elektrik Uretim	100%	Turkcell Enerji Cozumleri	Turkey	11.5
17-Jun-21	Kay 1-2-3 Solar Power Plant	100%	Impa Yapi Endustri	Turkey	n.d.
23-Aug-21	Biotrend Cevre ve Enerji Yatirimlari	6%	EBRD	Multinational	20.0
3-Sep-21	Tortum HPP	100%	Mila Enerji	Turkey	27.0
6-Sep-21	Yenifoca and Suleymanlı SPP	100%	Aldo Enerji	Turkey	n.d.
16-Sep-21	AP Enerji Yatirimlari	50%	Maxis Clean Energy Investment Fund	Turkey	n.d.
24-Sep-21	6 plants of Ceiba Enerji	100%	Kartal Yenilenebilir Enerji	Turkey	4.6
24-Sep-21	Akköprü HPP	100%	Aydem	Turkey	62.5
24-Sep-21	15 Solar power plants	100%	Utopya Turizm	Turkey	13.0
28-Sep-21	Metristepe WPP	100%	Inova Elekrik	Turkey	n.d.
30-Sep-21	Uludag Elektrik Dagitim & Limak Uludag Elektrik Perakende	100%	Actis LLP	United Kingdom	n.d.
1-Oct-21	Denk, Maya, Yeka, Kelam SPP	100%	Toprak Yenilenebilir Enerji	Turkey	4.1
2-Oct-21	Camlica 1 HPP	100%	Zeytindali Elektrik Enerjisi	Turkey	65.6
7-Oct-21	Mevne 2 Enerji	100%	Toprak Yenilenebilir Enerji	Turkey	23.5
12-Oct-21	Yılmaz SPP	100%	Ekvator Enerji	Turkey	n.d.
14-Oct-21	Gebze Dilovası Dogalgaz Santrali	100%	Colakoglu Metalurji	Turkey	14.8
15-Oct-21	Durukan and ZMM SPP	100%	Toprak Yenilenebilir Enerji	Turkey	3.3
27-Oct-21	Mare Manastır & Dares Datça WPP	100%	Demirer Family	Turkey	n.d.
11-Nov-21	Kaynar-1 SPP	100%	Metemtur Yatırım Enerji Turizm	Turkey	1.4
11-Nov-21	Antges Enerji	n.d.	Arz Girisim Sermayesi	Turkey	n.d.
11-Nov-21	Çal HPP	100%	Erk Insaat	Turkey	0.9
17-Nov-21	Batman SPP	100%	Ekvator Enerji	Turkey	n.d.
17-Nov-21	Topcam HPP	100%	Bilgin Guc Santralleri	Turkey	104.3
18-Nov-21	Kucuk Enerji Uretim (Koprubasi HPP)	100%	Dak Enerji	Turkey	6.8
25-Nov-21	Gulbahar Elektrik Uretim	100%	Birlesim Yapi ve Endustri Tesisleri	Turkey	n.d.
1-Dec-21	Girlevik II-Mercan HPP	100%	Tayfurlar Enerji Elektrik Uretim	Turkey	10.1
3-Dec-21	Esarj Elektrikli Araclar	14%	Enerjisa Enerji	Turkey	3.1
21-Dec-21	Turcas Kuyucak Geothermal Power Plant	100%	Albioma	France	24.3
Total				≅	**1,500.0***

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



Oil and gas

Down and up and down again…

While the global oil&gas deals did not cut pace amid the growing demands from different fronts to stop investing in fossil fuel assets, the same front in Turkey, which had an unexpectedly busy 2020 after a quiet 2019, was back to its pause in 2021.

Instead of deals, the Turkish natural gas market agenda was busy with the security of gas supply in a very tight import market in a year when four long-term supply contracts of 16 bcm p.a. in total came to expire. While the expectations about renewing one of the existing contracts with Russia with a higher volume is yet to materialise, a new 3 year contract with Azerbaijan was sealed to secure 11 bcm p.a.

And, despite the high national gas demand, which is expected to have increased by 20% y-o-y to around 60 bcm at the end of 2021, Turkey's LNG imports remained lower than the previous years with little remaining fixed supply, few available spot cargoes and high spot prices. Against the almost vanishing shipments from Qatar, the restoration in Turkish-Egyptian diplomatic relations in early 2021 was critical as it was followed by record-high Egyptian exports to Turkey in the last quarter of the year.

Although the news about the hydrocarbon discoveries in the Black Sea created a big excitement, the very fact that Turkey is 99% dependent on imports is still a reality check on the way to decreasing the import dependence.

The fuel and LPG retail sector, on the other hand, could not sustain the consolidation moves ignited in 2020. The focus was rather on the upward volatility in product prices under the impact of global oil prices and the currency depreciation. As a result, as of December 2021, the pump price of LPG jumped by 122%, diesel by 75% and gasoline by 62% y-o-y.

In the middle of all this, only one oil&gas deals was disclosed in 2021 versus six in 2020, although the disclosed value of USD 1.3 billion was enough to keep the segment closely chasing the utilities. That deal was the sale of 13% stake in STEAS by Goldman Sachs to SOCAR to make the latter the sole owner of the company, which is the controlling shareholder of Turkish petrochemicals company Petkim.

Goldman Sachs had acquired the stake in 2015, while simultaneously entering into a six-year put option transactions with each of STEAŞ and Sermaye Investments Limited, a subsidiary of SOCAR.

Again, not eligible as a ‘deal’ for this report but still worth mentioning is the completion of the delayed IPO of Naturelgaz, Turkey’s largest CNG and LNG supplier.

Figure 4: Oil & gas Deals in 2021

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD mn)
2-Sep-21	STEAŞ	13%	SOCAR	Azerbaijan	1,300
Total				=	**1,300**

Looking ahead

We expect eight topics to potentially shape the deal environment in Turkish energy market in 2022 and beyond: macroeconomic developments, revival of interest in power distribution and retail, new YEKDEM period, alternative financing, upcoming YEKA tenders, Turkey's commitments under the Paris Climate Agreement, support by international financial institutions for renewable energy, TEIAS' privatisation.

Macroeconomic developments

The macroeconomic policies recently introduced by the Turkish government will continue to shape the trust by the foreign players in particular in the Turkish investment environment. These swings in the economy policy are expected to have uneven impacts on the deal environment. Utility deals with the renewable energy assets in particular would continue to happen independently from the consequences these policies bring. However, further consolidation in the fuel and LGP segments may be more dependent on the improvement in the macroeconomic climate.

Revival of interest in power distribution and retail

The Uludag deal mentioned above marked a surprising return of the foreign players to the Turkish power distribution and retail market in 2021. And, the improvements in the regulatory terms in the fourth tariff period (2021-2025) may be key to attract more foreign infrastructure funds seeking stable returns in a rising energy demand environment.

New YEKDEM period

We are still expecting a strong investor interest in 2021 in the assets which were commissioned right before the June, 30th 2021 deadline, as they are already benefiting the previous YEKDEM terms until 2030.

As explained before, the new YEKDEM scheme, which will be in force between 2021 and 2025 is already believed to indirectly encourage the recent deals although none was for an asset subscribed to the new system. And it is expected to encourage even more investment in the renewable energy capacity with its inflation and foreign currency adjustment system in particular, which will bring even more new assets to the deal pipelines.

Alternative financing

Although Turkey owes its successful track record in developing its renewable energy capacity to the feed-in-tariff system, there is still some way to go with respect to the transition from this support to a fully functioning merchant market system in this segment. In that sense, 2025 presents an important milestone as this will be the final year for the new capacity to be eligible for YEKDEM.

Although we are aware of the focus of the current investment plans which prioritize the commissionings until this deadline, we want to highlight that there is life beyond it too with the growth in alternative financing options. Green bond issues, for instance, are becoming increasingly popular as a sustainable debt instrument which should be considered within a more proactive and long-term strategic approach, not only for the future capacity but also for existing portfolios to build the necessary muscles and know-how to make the best of such alternatives.

As in all aspects of the renewable energy market, however, there is still a set of critical homeworks for the Turkish energy administration to make such alternative tools mainstream options in line with the Paris Agreement goals. One of these urgent homeworks is the need for a clear legal framework for the financial institutions to follow and another is the promotion of transparent non-financial reporting to enable all the stakeholders to better understand the risks involved.

YEKA tenders

As clarified before, although they are not eligible to show up on our deal league, YEKA tenders are still an important source to produce potential acquisition targets. Considering them from that angle, three more tenders have been announced for 2022 with the following details:

- YEKA WPP-3 tender for 2 GW capacity in 42 regions of Turkey (submission deadline: 27.04.2022);
- YEKA SPP-4 tender for 1 GW capacity in 3 regions of Turkey (submission deadline: 30.03.2022);
- YEKA SPP-5 tender for 1.5 GW capacity in 23 regions of Turkey (submission deadline: 31.05.2022).

Turkey's commitments under the Paris Climate Agreement

Paris Climate Agreement has been ratified at the Turkish Parliament. But this is only the beginning as the country should develop a clear strategy to reach the net zero target by 2053. It is only with this visibility that a more diversified set of clean energy investment options would develop, which would in turn add to the deal pipelines in the Turkish market. Also, Turkey will have to make a decision about its 20 GW coal-fired power generation capacity and planned investments in that segment, which are still deemed as the backbone of the economic development in the country.

Interest by international financial institutions for renewable energy

Albeit for a small share, EBRD's return to the Turkish renewable energy market in 2021 was significant for the targeted asset being waste recovery and EfW, diversifying the bank's focus into assets other than WPPs or SPPs.

The recent approval by the World Bank for two loans worth USD 300 million to support the development of GPPs as part of the Geothermal Development Project in Turkey is critical to boost the investments in this so far underdeveloped segment despite the huge potential. And, therefore, it is believed to create attractive deal targets.

TEIAS' privatisation

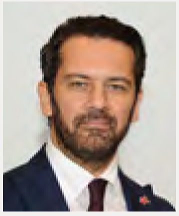
After long speculations, the Turkish Electricity Transmission Corporation (TEIAS) was finally included in the scope of the privatization, although no specific calendar has been made public to date. If to take place in 2022, it may mark a resumption of the big ticket utility privatisations of the past with potential interest in not only its operations but also its considerable real estate portfolio.

At the end of 2020, we had said: The Turkish energy administration needs to put extra effort to align its actions with the global best practices and be even more proactive and effective in creating the shields to protect the market from further shocks.

To this pressure on the policy makers are now added the NDCs of the Paris Climate Agreement, which are still very fragile against the country's growth priorities. The deal figures underscore the fact that the interest in the Turkish energy market together with its high-quality assets and workforce is there. Now more than ever, it is up to the policy makers to make Turkey gain the safe haven status with a long-term view.

Contacts

Our core energy, utilities and resources team

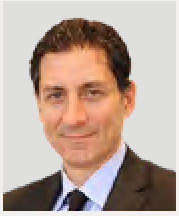


Murat Çolakoğlu
Energy, Utilities and Resources
Industry Leader
+90 (212) 326 6086
murat.colakoglu@pwc.com

Engin Alioğlu
Deals Leader
+90 (212) 376 5397
engin.alioglu@pwc.com

Tolga Taşdelen
Mining and Metals Industry Leader,
Tax Services
+90 (212) 326 6086
tolga.tasdelen@pwc.com

Çağlar Sürücü
Power and Utilities Industry Leader,
Assurance Services
+90 (212) 326 6040
caglar.surucu@pwc.com



Baki Erdal
Chemicals and Metals Leader,
Assurance Services
+90 (212) 326 6040
baki.erdal@pwc.com

The New Equation is a future that is human-led and tech-powered.

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