

TURKISH BULLETIN

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ECONOMY & MARKET

MARKETS

At Friday's close, market situation was:

O/N for ISE Repo market & TLR Interbank market		TRL/USD
26%		1,361,321
Most actively traded T-Bills		
Date	Maturity	C/Rate
09/01	26/01/05	23.9%
ISE-100 index		
TRL 19,405 (\$1.43)		

CBT FX Reserves: rose US\$1.4bn to US\$33.6bn in the week of Dec 19-26, thanks to the IMF tranche of US\$502mn and proceeds from the Treasury's dollar denominated G-bond issue.

Redemption/Domestic program for January: total domestic debt service is US\$11.1bn as compared to US\$6.7bn of previous month. The Treasury will repay US\$9.6bn domestic debt to the market and US\$1.5bn to the public sector. Total debt service in January is planned to be US\$12.1bn. Treasury plans to borrow a cumulative sum of US\$9.6bn implying a market rollover of around 90%, lower than last month's realized figure of 100%. The following table depicts results of auctions held in the last 4 weeks:

issue	Mat. Date	Mat. month	Bid TL trl	Sales TL trl	Cov %	Net Sales TL trl	Ann. compo Yield (%)
17/12/03	17/03/03	3	1,258	1,133	90	1,070	25.65
17/12/03	16/11/05	23	1,852	1,088	59	1,481	26.58
23/12/03	22/06/05	18	US\$ 1,095 mn	US\$930 mn	85	US\$ 1,155 mn	4.15

The treasury gave a mandate to UBS and Citigroup to issue a 30-year US-denominated **Eurobond** with 30-year maturity. The size of the issue reached US\$1.5bn against US\$7.5bn reported subscription at an expected yield of 8.23% (launch pricing UST + 31bp).

The budget posted US\$13.5bn of primary surplus in the first 9M03, with November primary surplus totaling US\$1.5bn. Hence the year-end 6.5% surplus to GNP target might be achieved contrary to concerns.

The current account posted US\$119mn deficit in October, the switch from surpluses to deficits signalling the end of the tourism season. The cumulative deficit totalled US\$4.1bn for Jan-Oct 2003 (compared to US\$18mn surplus in the same period last year).

Exports December: climbed by 50.6% YoY reaching US\$4.9bn while the 2003 exports surged 32.4% on cumulative basis to US\$47.6bn compared to 2002 (Turkish Exporter Association data).

The domestic debt stock rose US\$1.99bn to US\$125.8bn as of November while the external debt stock fell US\$192.9mn to US\$61.6bn. Consequently, total consolidated debt rose US\$4.8bn to US\$187.4bn.

The minimum wage is raised by 38% in gross terms for the first half of 2004, resulting in an estimated additional cost of US\$0.4bn on the budget as the government undertakes to reduce the employers' tax burden.

The government decided to **increase the pensions by 10% in the first half and 10% in the second half in 2004**. This increase in the pensions will have an additional burden of US\$1.7bn on the 2004 budget. Together with the recent minimum wage increase of 38%, the total cost in 2004 could be around US\$2.6bn corresponding roughly 1% of GNP.

December inflation figures: CPI rose only 0.9%, while WPI increased 0.6%. Annual CPI and WPI came out to be lower than the government targets with respective annual rises of 18.4% and 13.9%.

The CUR declined to 79.9% in November from 80.4% in the previous month. On a YoY basis, there was rise of 3.5%. Also **IP registered 3.9% increase** well below the expectation due to the long holiday.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Cyprus: Pro-EU party given mandate to form government in northern Cyprus. Government-Military split on Annan plan. Turkish Cypriot leader Denktas has awarded Talat, leader of the pro-Annan CTP, the mandate to form northern Cyprus's next government. Meanwhile, reportedly, Chief of Staff Ozkok paid a visit to

Erdogan and expressed his concerns over certain modifications proposed to the Annan plan. On January 8th, PM Erdogan met leaders of the four Turkish Cypriot parties. The PM is pushing leaders to form a government and a decision is pending next National Security Council.

COMPANY NEWS

Isbank:

- Decided to consider the receivables from ISTIM amounting to US\$352mn as capital in advance to be used for the planned capital increase of ISTIM
- Will raise its paid-in capital from US\$568mn to US\$1,000mn through a 76% bonus issue.

Sabancı Holding:

- Sold its entire 50% stake in Danonesa to its French partner Danone at a price of US\$72mn.
- Sabancı Holding's Chairman Sabancı stated that they search for a third foreign partner, possibly from the U.S. or Europe, in order to bid for the privatization tender of Turk Telekom in partnership with Koc Holding.
- Sabancı Telekom became the first company to obtain licence from the Telecommunication Board to operate in the fixed-line segment.

Turkcell:

- Decided to participate in a newly established Ukrainian GSM operator by 51% via its 99.99% owned participation Turkcell.
- The BOD of Turkcell did not agree on the purchase of Digiturk shares, which is estimated to be the major conflict between company's two major shareholders TeliaSonera (37%) and Cukurova Group (42%).
- Cukurova Holding announced that the Extraordinary General Meetings of Turkcell Holding and Turkcell on the respective dates of 24th and 29th of December have been cancelled, as the strategic partners came to a mutual understanding.
- Telecom Authority demanded US\$64mn from Turkcell, claiming that Turkcell made inadequate annual frequency usage fee payments

Enka Insaat: announced that they have been commissioned 5 new projects in Russia and Kazakhstan, the total amount of which adds up to US\$355mn. Also they might team up with Bechtel which has recently been awarded a Romanian motorway contract amounting in excess of EUR 2bn.

Koç Holding: BOD decided to mandate an international consortium to arrange a club loan of US\$100mn to which BNPP will participate as one of the Joint Arrangers.

Petrol Ofisi's CEO Tuncer announced that the company's revenues reached US\$5.4bn in 2003 despite lower sales volume due to higher oil prices and an appreciating TL.

Vakifbank: has raised a US\$300mn securitization loan of 5-year and 3-year maturities for equal (US\$150mn) tranches in order to finance exports.

Cukurova Group: the Group applied to BRSA and the SDIF for the early redemption of its debt to the SDIF (with a term of 15 years) and to YKB (with a term of 9 years) in December 2003. The Group also stated that if the BRSA accepted their offer, they would pay their debt to YKB in two-year and their debt to the SDIF in a one-year period. At the moment, the offer is being debated among various government agencies and a due diligence on North Petroleum, the proposed financier, is on the way.

Turkish Airlines: decided to increase its fleet size from 65 to 84. The company had received in past months US\$2.2bn worth of investment incentives.

Tupras's CEO announces 2003 figures & 2004 targets: Tupras aims to refine 24.5mn tons of crude oil compared to 24mn tons in 2003. With

the anticipated decline in oil prices, gross revenue is forecast to decline from US\$13bn to US\$12bn. EBT is reported to surpass TL600tril in 2003 and is targeted at TL680tril in 2004 - at a 33.5% corporate tax rate and our exchange rate estimates, these figures correspond to US\$266mn net profit for 2003 and US\$290mn for 2004.

SECTOR NEWS & PRIVATISATION

PRIVATIZATION

Tekel-Alcohol: A local court has cancelled a lower-court verdict that had called for the suspension of Tekel-Alcohol's privatisation and privatization of a part of TEKEL can now be implemented. Recall that the Nurol-Tutsab consortium submitted the winning bid of \$292m.

Turk Telekom: The Telecom Valuation Committee has valued **Turk Telekom** at US\$7-11bn. TT majority shares are expected to be offered to a strategic investor during 2004. TT refuted those values which appeared in the press.

Bursagaz: Calik Energy, which is a Calik Group company, won the tender for the privatisation of

Erdemir: announced 2003 production and sales volume numbers. The Company produced 3.53mn tons of steel, up by 12% YoY, and sold 3.56mn tons, up by 9% YoY.

Bursagaz -the local natural gas distribution company of Bursa city- with the highest bid price of US\$120mn. Accordingly, Aygaz-Koc Group and Alarko-Akfen consortium lost the tender

Esgaz: Kolin Insaat, which is a local contracting and construction company, won the tender for the privatisation of Esgaz -the local natural gas distribution company of Eskisehir- with the highest bid price of \$43 mn.

Pamukbank: The BRSA announced that the failed Pamukbank will be merged with a state-owned bank (presumably Halkbank) due to the failure in sale process as bids by Finansbank and Nuaman Soufraki were deemed insufficient.

*Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Dışbank, Bender, Garanti Bank, Detay, MEED, DİE, Undersecretary of Treasury, CBRT, Yapı Kredi Yatırım, Finansın vest, Hürriyet, Sabah, Radikal, Akşam, Financial Times, Ege Yatırım, TEB Yatırım, EBA newsletter, Cumhuriyet.*¹

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