

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 |
|---|----------|-----------|
| 22% | | 1,499,620 |
| Most actively traded T-Bills | | |
| Date | Maturity | C/Rate |
| 03/09 | 22/02/06 | 25.2% |
| ISE-100 index | | |
| TRL 20,775 (\$1.39) | | |

CBT FX reserves: increased US\$0.9bn to US\$33.6bn over the last 2 weeks.

Redemption/Domestic borrowing program for September: total domestic debt service is US\$10.1bn including the compulsory savings account (CSA) as compared to US\$11.9bn of previous month. The Treasury will repay US\$8.2bn domestic debt to the market and US\$1.2bn to the public sector and US\$733mn to the CSA. Total debt service in September including foreign debt is projected to be US\$10.5bn lower than the last month's US\$12.7bn. Treasury plans to borrow a cumulative sum of US\$7.8bn implying a market rollover of around 96%, lower than last month's realised figure of more than 100%.

August cash basis primary surplus has become TL4quad (US\$2.8bn) as a result of the advance tax payments. The Treasury had already projected a cash primary surplus of TL4.3quad (US\$3bn) in its financing plan at the beginning of August. January-August'04 cumulative primary surplus has already reached TL19.4quad, close to the FY04 consolidated budget surplus target of TL20.2quad.

The foreign trade deficit for July came in at US\$3.17bn, 56.1% higher than the amount recorded in July of last year and much higher of consensus estimate of US\$2.8bn. Imports that surged 37% in July compared to the same month last year reached an all time high of US\$8.6bn level while exports totalled US\$5.4bn in July with a YoY increase of 28%. In sum, the large deficit in July was largely a result of a huge import bill, as in the previous 4 months, and particularly the impact of energy imports (oil and oil related imports rose by 30% YoY to US1.16bn in July).

Despite wider than expected trade deficit in July, due to the revision in the previous months'

exports, the trade deficit increased only to US\$19.4bn level in the first 7 months.

Current account deficit posted a deficit of US\$0.70bn in July'04 in line with market expectations, bringing the cumulative current account deficit to US\$10bn in the 1st 7 months of 2004. It was mainly the widening trade deficit, which has produced such a CA deficit figure in May. The trade deficit was compensated by a certain extent with an increase in tourism revenues, which totaled US\$7.1bn in the 1st 7 months (increase of 35.8% YoY). CA deficit is financed mainly through Central Bank reserves and short-term capital inflows. Meanwhile, the net errors and omissions item turned negative with US\$1.4bn of outflow for the month, hence the cumulative figure fell down to US\$1.3bn. The year-end CA deficit target had been revised to US\$10.8bn by the government and 92.5% of the target has been achieved until now. The positive effects of tourism revenues are expected to continue in August and September but low export performance in August may widen the CA deficit.

August export figures: according to Turkish Exporters Association (TEA) exports rose by 22% YoY in Aug'04 reaching US\$4.7bn (i.e. 17% MoM decline) driving the cumulative figure for the 1st 8 months by 33.6% to US\$39.7bn. August export figures have been in its lowest level for the last 6 months because of the over appreciated TL. There is also a seasonal decline in both industrial output and exports in August as a result of the summer recess and maintenance works in the manufacturing sector. As export is slowing down, it will have a negative impact on foreign trade deficit, which is strong correlated to CA deficit. As a result, the pressure on TL may increase and on the last quarter TL could depreciate in stage.

The CUR rose to 82.8% in the 2Q04, the highest level recorded ever, up by 4.4pps QoQ and 4.7pps YoY. Adjusting for seasonality, total CUR increased by 3.1pps QoQ to 82.1%. In the 2Q04, motor vehicles sector CUR elevated from 66.4% in 2Q03 to 89.5% and accordingly, metal sector CUR rose from 80.7% to 88.3%. Machinery-equipment sector CUR rose from 79.8% to 89.4% in 2Q04, while bureau and accounting machines CUR increased from

53.5% to 67%. In the 3Q04, firms expect a slowdown in motor vehicles sector CUR, while they foresee a strong surge machinery-equipment and bureau-accounting machines CUR. This implies that production will continue to rise in 3Q04 but at a slower pace.

August inflation figures: At 0.6%, the CPI inflation reading for August was as expected (the average market estimate was 0.5%). However, **at 0.8%, the WPI** inflation was remarkably higher than the average market estimate of 0.2%. Most importantly, **the core inflation reading of 1.5%** was worrisome. The relative weakness of the Lira and the higher oil prices were probably the main reasons behind the hike in core inflation. With these m-o-m figures, year-on-year CPI and WPI inflation numbers stood at 10% and 10.5%, respectively (up from the previous 9.6% and 9.4%). Despite the not-so-good August readings, the 12% end-year target is still achievable for both CPI and WPI. The central bank is unlikely to change its short-term policy rate in the near future.

IN BRIEF

Real interest rate of domestic debt stock: Treasury announced that the real interest rate of domestic debt stock declined mildly to 16.53% in June from 16.8% in May. Real interest rate of the market debt decreased to 17.82% from

19.29% among which that of the FX-indexed or denominated debt retreated from 18.87% in May to 12.07% in July.

Fitch rating agency revised Turkey's outlook to positive from stable while affirming LT foreign and local currency ratings of "B+", ST rating of "B" and country ceiling of "B+" after S&P upgraded Turkey to "BB-" on August 17. Fitch stated that the outlook reflected improvement in economic and financial fundamentals and a positive impact of a possible agreement with IMF for the long run. The agency maintained that there were medium-term fiscal problems such as social security reform and tax administration, but considering political discipline has been maintained these problems won't be any important issue in the short term.

Tourism, August: the number of foreign visitors coming to Turkey in the period of Jan-Aug 2004 has increased by 29.86% as compared to the same period of 2003 and reached to 11.7mn. In August, the tourism number rose to 2.4mn (increase of 8.55% YoY).

The CBT has announced that foreigners bought US\$1.9bn worth of real estate in the first 7 months of the year.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Putin's visit to Turkey delayed: Russian President Vladimir Putin and Defense Minister Sergei Ivanov's official visit to Ankara on September 2nd was delayed, due to the terrorist

incident in Southern Russia. Energy projects and defense contracting deals were expected to be on the top of the agenda.

COMPANY NEWS

Akbank reported net earnings of US\$325mn in 1H04 on IFRS basis compared to US\$405mn in 1H03. Akbank's total assets and shareholders' equity stood at US\$20,730mn and US\$3,614mn, respectively, at the end of 1H04. The bank reported an ROAE of 18% in 1H04 compared to 31% in 1H03. Akbank also announced its 1H04 BRSA-based consolidated financials with a net earnings figure of US\$338mn, which was US\$342mn in 1H03.

Isbank reported net earnings of US\$341mn in 1H04 on a BRSA consolidated (financial companies only) basis vs. US\$196mn in 1H03.

Disbank announced its 1H04 BRSA-based consolidated financials with a loss figure of US\$22.3mn, which was a net earning figure of US\$40.7mn in the same period of 2003.

Finansbank released its 1H04 BRSA-based consolidated financials with a net earnings figure of US\$56mn, which was US\$44mn in 1H03.

Yapi Kredi Bank decided to sell 32% stake in Group Seb Istanbul Ev Aletleri Ticaret A.S. for EUR6.6mn to Seb International S.A. In addition, the Bank announced its 1H04 BRSA-based consolidated financials with a loss figure of

US\$3.3mn, which was again a loss figure of US\$7.5mn in 1H03.

Garanti Bank: announced that the bank's sale of 18.78% stake in Dogus Otomotiv and the 1% stake, which is held by Dogus Hava Tasimaciligli to Dogus Insaat, has been completed. Transaction price was TL5,500 per share and accordingly, Garanti Bank and Dogus Havacilik received US\$76.3mn and US\$4.1mn in cash respectively.

TEB sold its 50% stake TEB Sigorta, the insurance company, to its parent TEB Financial Services. In addition, Teb announced its 1H04 BRSA-based consolidated financials with a net earnings figure of US\$15.4mn, which was US\$6.3mn in the same period of 2003.

Tupras announced a net profit of US\$123.5mn under CMB basis (inflation adjusted and consolidated). This figure compares favourably with 1Q04 net profit of US\$21.8mn thanks to the boost in the oil industry leading to a surge in refining margins in 2Q04 (refining margin soared in 2Q04, reaching US\$4.78/bbl, up by 62% QoQ). Tupras did not disclose comparable figure for 1H03.

Turkish Airlines announced US\$16mn pre-tax profit and US\$7mn provisional tax for 1H04 according to tax reporting standards on IAS. THY also announced that the number of its passengers rose by 22.6% YoY in the 1st 6 months, raising its passenger load factor to 68.9% from 61.1% due to slight decline in capacity. Highlighting that number of domestic flight passengers jumped to 6.3mn, the company

declared a market share of 74%, which indicates erosion in market share from 99% levels due to entry of low-cost fliers. **OYAK26+31**

Sabancı Holding announced its 1H04 IFRS net earnings as US\$218mn. The Holding's net profit was US\$175mn in 1H03 (restated). Despite a 23% YoY decline in Akbank's 1H04 net earnings, the Holding attained a 25% real YoY growth in its bottom line during this period, thanks to a surge in consolidated net profit from the Holding's non-financial participation.

Enka Insaat: Royal Dutch Shell is preparing to sell its power subsidiary Intergeren, which is Enka Insaat's partner in Turkey. Enka is expected to buy Intergeren's remaining 26% stake next year. In the previous transaction between the two groups, which saw a 25% stake change hands last year, the business was valued at US\$07bn.

Aygaz announced in its 1H04 IFRS consolidated financials US\$10.2mn net profit on the back of US\$1,144mn revenues and US\$51mn EBITDA. YoY comparisons are not available.

Turkcell will up its legal provisions within the range of US\$250mn-US\$350mn (its legal provision was US\$1,278mn as of 1Q04) for ongoing litigation regarding the Treasury and Turk Telekom interconnect disputes. Furthermore, a decree is published in the Official Gazette setting out the rules and procedures for the settlement with TT. Accordingly, GSM will have to apply to TT within a month. TT will collect its receivables arising from past year interconnection disputes with instalments over 18 months.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

Uzan Media Assets: Head of SDIF Mr. Ahmet Erturk, has announced that the sale of Uzan group's media assets, mainly composed of Star TV Channel and Star daily, will be completed in September. Mr. Erturk added that there are several local and foreign groups interested in these assets but no bids materialised yet due to the uncertainty over the terms of sale.

Five consultants apply for privatisation of National lottery: Accordingly, Ernst&Young / Qlot Consulting, Deloitte & Touche, Deniz Securities/société Générale/Ekspres Yatirim,

Mc Kinsey and Global bid for the privatisation of the National Lottery. The sale process is expected to be finalised in 2004. The groups that have shown interest in the sale so far include Dogan, Alarko, Dogus, Koc, Sabanci, Oyak and Cukurova. Lottomotica and Sisal (Italy), Opap (Greece), Mamelot (UK), EssNet (Sweden), Gtech (US) are the foreign investors likely to bid.

BANKING SECTOR

The SDIF auction to sell an NPL portfolio of US\$223mn, composed of debts of 38 companies, was finalized. Bebek Asset Management Company (BAMC), which was

established by Deutsche Bank in December 2003, purchased the portfolio with an offer of US\$22.5mn, corresponding to 10.1% of its size. As recalled, SDIF failed to sell the same

portfolio in 2003 and reduced its size by around 30% with a collection campaign that offered sizable discounts for early payments.

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

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