

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
20%		1,497,349
Most actively traded T-Bills		
Date	Maturity	C/Rate
01/10	12/04/06	24.14%
ISE-100 index		
TRL 21,954 (\$1.47)		

The Treasury has raised US\$1bn in its 10-year US\$-denominated Eurobond issue. The coupon rate and the yield of the issue were 7.25% and 7.45% respectively (Citi/Morgan were joint leads). The Treasury has already exceeded its foreign borrowing target of US\$5bn for 2004.

The following table depicts results of auctions held in the last 2 weeks:

Issue	Mat. Date	Mat. month	Bid TL trl	Sales TL trl	Cov %	Net Sales TL trl	Ann. Comp Yield (%)
22/09/04	06/04/05	7	1,452	1,295	89	1,584	26.90
22/09/04	12/04/06	19	4,400	1,396	32	2,318	26.63
22/09/04	13/09/06	24	2,258	1,827	81	2,957	FRN

Turkey's trade deficit reached US\$3.25bn in August. The figure is in line with the market consensus of US\$3.27bn. The August 2003 trade deficit was at US\$2.1bn level while the previous month's figure was revised down to US\$3.1bn from US\$3.2bn. With this figure, the trade deficit in January-August period reached US\$22.6bn level. Imports that surged 31% in August compared to the same month last year reached US\$7.9bn level while exports totalled US\$5bn in August with a YoY increase of 20%. It is seen that consumer goods imports continue to be robust and surged 88% compared to the same month last year. The capital goods imports also increased 54% vis-à-vis comparable month of 2003, indicating that the strong investment appetite continues in the third quarter.

Manufacturing sector activity remained strong in August: The manufacturing sector capacity utilisation rate in August was 81.7%, not as high as the numbers recorded in the previous three months but still a strong figure. Thus, with the exception of April, when there was maintenance work at the state-owned refineries, the CU rate has been above the 80%

mark since March. Moreover, the proportion of manufacturers citing lack of domestic demand as the key reason for operating at less than full capacity continued to fall in August. Perhaps as a reflection of the seasonal trends, private sector manufacturers' average inflation projection for September was higher than it was for August.

September inflation data; WPI rose by 1.8% and CPI increased by 0.9% MoM. YoY CPI fell to 9.0%, while the WPI climbed slightly to 12.5% YoY.

August 04, consolidated budget debt stock: Consolidated public debt stock rose TL5.6quad to 309.9quad at end-August. TL2.3quad of the rise stemmed from an increase in domestic debt stock (which rose to TL214.3quad) and the rest from foreign debt stock (foreign debt stock reached TL95.6quad). However when expressed in US\$ terms, there is a different picture: Despite the US\$1.5bn net borrowing, domestic debt stock fell by US\$1.8bn due to US\$3.3bn fall that stemmed from depreciation of TL and parity movements. With the US\$772.5mn rise in foreign debt stock, consolidated public debt stock fell by US\$1bn to US\$207bn as of end-August.

IMF performance criterion on track: consolidated government sector primary surplus reached TL19.9quad (US\$14.2bn) as of end-July. After excluding the primary surplus from state economic enterprises the figures comes to TL18quad (US\$12.9bn) close to the target of TL19quad stated in the latest Letter of Intend for end-August. Central government's primary surplus in August under the IMF definition was TL3.3quad bringing the actual outcome for the consolidated government sector above the performance criterion level, thus unless the rest of the public sector registers a primary deficit of TL2.3quad, IMF performance criterion will be met.

Moody's ups Turkey's rating: Moody's announced that it has upgraded Turkey's domestic currency debt rating to B2 from B3, citing improved debt dynamics, and the country ceiling for foreign currency bank deposits rating also to B2 from B3. The outlook on these ratings had been positive since Oct.03 and is now stable. The agency also announced that the

outlook on the B1 foreign currency government bond rating and the B1 country ceiling for foreign currency debt remain stable.

IN BRIEF

According to SIS figures, **number of tourists rose 11.6% YoY to 2.5mn in August**, which pinpoints to a deceleration in tourist growth since the base year effect loses impact. The cumulative figure for the 8 months rose to 11.8mn, up by 31.1% compared to the same period in 2003.

The IMF's World Economic Report envisaged 7% growth, 11.4% average inflation and current account deficit reaching 4% of GNP for Turkey in 2004 while IMF's 2005 expectations for Turkey stood at 5%, 10.8% and 3.5% for growth, average inflation and current account deficit respectively. The report also stated that weakening TL and rising tourism revenues were expected to

improve the current account balance in 2005. The report reiterated the significance of maintaining primary surplus target of 6.5% in 2005 and beyond given the high indebtedness of Turkey.

Unemployment rate down at 9.3% in Q2 from 10% of the same period last year and 10.5% of 2003 average (12.4% in Q1).

Preliminary Export Data: According to Turkish Exporters Association exports have increased by 37% in September reaching an all-time high US\$5.8bn in September.

Treasury October Borrowing Program: Treasury will borrow US\$7.3bn from the markets against its domestic debt redemption of US\$8.3bn. Total domestic debt redemption for October stands at US\$8.9bn.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

New IMF program: Economy Minister Babacan announced that the new IMF stand-by program details would be announced before December 17, when the EU leaders will decide on whether or not to start accession talks with Turkey. The new program will cover the 2005-2007 period and will be presented to the EU as the pre-accession economic program. Babacan also indicated that the program would not rely on any potential financing from the EU. Babacan added that Turkey has the right to push US\$3.6bn repayment to the IMF in 2006 one year to 2007 and stated that primary surplus target would ensure decline in debt stock. Finally, the Minister explained that the primary surplus target has to be ambitious in order to reduce the debt to GNP ratio. The talks on the upcoming stand-by program are expected to

continue in the 2nd half of October, but no schedule was set as yet.

Penal Code: In response to statements from EU that progress report would not be favorable should the penal code not be passed in Parliament and after PM Erdogan's visit to Brussels, **Turkish parliament approved the new Penal Code on Sept.26.** The Turkish Penal Code (TCK) was amended after 78 years. The new TCK simplifies language of the Penal Code and re-arranges punishments in accordance with today's conditions. The new TCK includes a strengthening of women's rights and individual freedoms and tougher penalties for torture and rape. The Penal Code was seen as the last major step that had to be completed before the Progress Report in October 6.

COMPANY NEWS

Fitch Ratings determined the short-term FX and local currency rating of some banks as 'B' in line with the previous long-term ratings. These banks are: Disbank, Finansbank, HSBC Bank A.S., Kuveyt Turk Evkaf Finans Kurumu, Oyak Bank, T.C. Ziraat Bankasi, Tekfenbank, TEB, Turkiye Vakiflar and Yapi Kredi.

Akbank obtained a US\$250mn securisation loan (through the securisation of export receivables,

cheque receivables and workers remittances) from WestLB AG, London on September 21. US\$100mn of this facility has a maturity of 5 years, and the remaining US\$150mn has a maturity of 7 years.

Denizbank shares started to trade on the ISE as of October 01, 2004. 22.24% of the bank shares has been offered to public. Base price was TL2,880/share. At IPO price of TL 2,875 the

MCap of the bank is US\$557mn, indicating a 0.96x 2004E P/BV multiple. The underwriter, TSKB Securities, plans (but does not commit) to support the shares for the first 30 trading days for price stability subject to the funds generated through the planned sale of 8.0bn additional shares (worth around US\$15mn).

Tupras announced its consolidated IFRS 1H04 net earnings as US\$176mn, down by 25% YoY. The main reason for this decline in the bottom-line was the sharp YoY plunge in net financial income and monetary gain. The company's net profit in its CMB financials was US\$123.5mn. 1H04 IFRS consolidated revenues amounted to US\$3,089mn, down by 11% YoY, EBITDA was US\$244mn, 1H04 EBITDA margin on the other hand rose to 8% from 6% in 1H03.

Turkcell: the Parliament in Iran approved a new law, which requires the Parliament to vote for foreign investment decisions in the country. The law will be enacted following the approval of Constitutional Commission. According to the law, foreign investments including airline and ground handling services, postal and communications services, in which the share of the foreign investor is above 49% will be subject to Parliamentary approval. The law retroactively captures all foreign investment agreements signed since March 20, 2004. The immediate impact of the developments on Turkcell could be negative, as the company was awarded the 2nd GSM tender of Iran in February 2004 for which the final signatures on the license were made in Sept. 2004. As a result, Irancell must receive the Iranian Parliament's approval prior to the payment of the EUR300mn of license fee in order to become the 2nd licensed GSM operator in Iran.

Turkish Airlines posted US\$5mn net earnings for 1H04 on IFRS basis versus US\$18mn net loss in 1H03. The company had reported US\$66mn net loss in 1Q04. On YoY basis, revenues declined 7% to US\$793mn despite rising number of passengers and passenger load factor due to discount on fares in response to competition low-cost fliers. Coupled with high petroleum prices, the gross margin also shrank to 2% from 5%.

Sabancı Group unveiled their interest in 5 cement factories (Lalapasa, Eskisehir, Sanliurfa, Ergani, G.antep) of Uzan Group that will be sold by SDIF in March or June 05. 20-25

domestic/foreign firms are said to be interested in Uzan Group's cement plants.

Finansbank obtained US\$200mn subordinated debt with 10-year maturity (and pay back option after 5 years), which was arranged by Merrill Lynch.

POAS: Isbank and Dogan Holding announced that a consortium of international investment banks (Deutsche/Merrill) has been mandated to evaluate the possibility of a placement in POAS with a maximum limit of US\$150mn. POAS placement might take place thorough a combination of stake sale by major shareholders (Isbank and Dogan Holding) accompanied by an SPO by the company and/or through the sale of warrants. The value of the shares to be offered will be up to US\$150mn. Furthermore, Petrol Ofisi announced that it decided to increase its paid-in capital from TL345trl to TL385trl through TL40trl (11.59%) rights issue by restricting pre-emptive rights of the existing shareholders. The new shares will be sold to foreign institutional investors at a premium over the nominal value of TL1,000 p.s.

Enka Insaat: According to a Turkish News Agency, Azpetrol of Azerbaijan and Enka Insaat signed a joint contract to rehabilitate and operate oil fields in Binegedi, Girmeki, Caknagal, Sulutepe, Masazir, Fatmayi, Sabandag and Siansor regions of Azerbaijan. In the ceremony held for the agreement, the Presidents of State Oil Company of Azerbaijan (SOCAR) explained that Azpetrol and Enka would be partners for the next 25 years for the oil to be extracted from these fields, some of which have been operational for the last 100 years and some of which have been non-operational. In current conditions, the capacity of the wells is 286 tons-per-day while it is targeted to increase this capacity initially to 700 tons-per-day. Current annual revenues are around US\$15mn, which is targeted to be increased to US\$40mn.

Cukurova Group has extended its 1st tranche payment deadline to YKB & SDIF to October 11. The Group will pay 13.5% interest for the late payment and if similar delays occur for 4 times during the contract period (and/or twice in a row), this will be considered as default. The Group also asked YKB for revision in the payment plan of subsequent tranches due to the late payment of the 1st tranche. YKB CEO was removed from post subsequent to this delay.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

Erdemir: Privatisation Administration announced that HC Istanbul, Raiffeisen Investment AG and Tekinalp Avukatlik consortium was selected as its advisors for Erdemir's block sale.

The tender for Turk Telekom and Tobacco arm of Tekel will be initiated in October this year: according to the government's spokesman Mr. Cicek, the tender of TT will be kicked off in the 1st week of October and for Tekel in the 3rd week of October. The public offering of Turkish Airlines is planned to be start on November 17, this year. Cicek also stated that privatization of Cyprus Turkish Airlines and public offering of Petkim were planned to take place this year as well. Furthermore, Competition Board suggested

that Turkcell should not bid by itself for TT privatization. The company may take part in a consortium while not commanding a controlling stake directly or indirectly in TT. Chairman of the Competition Board also suggested sale of Tekel through spinning-off the brands and stated that separate corporate bodies for Cable TV and internet operations of TT should be founded after the sale.

Petrol Ofisi announced that the company **snatched documents for the privatization of car inspection stations.** The tender includes transferring car inspection stations to private companies for the next 20 years. Bids for the tender will be received until November 23.

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

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