

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%		1,410,935
Most actively traded T-Bills		
Date	Maturity	C/Rate
03/12	24/05/06	23.51%
ISE-100 index		
TRL 23,008 (\$1.63)		

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 (%)
24/11/04	29/06/05	07	2,506	1,381	55	2,928	23.01
24/11/04	24/05/06	18	3,965	2,070	52	2,518	23.24
01/12/04	28/11/07	36	USD 2,150	USD 1,178	55	USD 2,253	LIBOR +1.60

Redemption/Domestic borrowing program for December: total domestic debt service is US\$10.1bn as compared to US\$10.8bn of previous month. The Treasury will repay US\$8.8bn domestic debt to the market and US\$1.3bn to the public sector. Total debt service in December including foreign debt is projected to be US\$10.8bn lower than the last month's US\$12bn. Treasury plans to borrow a cumulative sum of US\$7.6bn implying a market rollover of around 96%, lower than last month's realised figure of more than 110%.

Treasury disclosed the November cash figures: Accordingly, the primary surplus was disclosed at TL6,400trl, comparing very favorably with the Treasury's estimate of TL4,000trl disclosed in its Domestic Borrowing Strategy Report for November. One of the reasons of such a positive outcome is the more-than-expected advanced tax collection owing to the high profitability of the corporate in 3Q04. In the meantime, the 11-month surplus reached TL24,000trl, indicating that the year-end target can be exceeded. As for December 2004, the Treasury foresees primary balance (zero surplus), while a primary deficit of TL3,000trl was recorded in December 2003. It is not expected to have a significant diversion from the target in December in view of the Government's recent strides for cooling down the economy (implying tighter fiscal policy).

The consolidated budget debt stock rose by 8.6% MoM to US\$220.1bn in October 2004. The total debt stock at the end of 2003 was US\$202.7bn. The detail of the debt stock is as follows: the domestic debt stock and the foreign debt stock have increased to US\$153bn and to US\$67bn respectively. The underlying reasons for the sharp increase in the overall consolidated budget debt stock are mainly (i) high real interest rates and (ii) XC-rate impact.

October foreign trade data: Turkey's export revenues were US\$5.7bn in October, up 18.2% YoY and in line with market estimates. At nearly US\$8bn, and up 21% YoY, imports were also as expected. The resulting trade deficit of US\$2.3bn was 29% higher than the amount recorded in October of last year but it is the lowest figure since January this year. The current depreciation of US dollar against Euro and other currencies may seem to be favourable in terms of narrowing the trade deficit, which indicates a cool-down in the economy in the last quarter of the year. The trade deficit projection for the entire year is close to US\$34bn, which implies a current account deficit of US\$14.5bn (about 5% of GDP).

CA posted a deficit of US\$230mn in October in line with market expectations of US\$250mn, which shows a significant slow-down of the widening in the deficit in October'04. The slow down in the trade deficit was the underlying factor, which kept the deficit at relatively benign levels. The decline in working days in October'04 compared to the last years introduced a favourable seasonality reducing the trade deficit. The cumulative 10-month CA deficit has reached US\$10.7bn so far. Going forward it's expected a CA deficit of US\$14.4bn in FY04 implying roughly the same deficit level in the last 2 months as it has been in the last year.

IN BRIEF

Quarterly CUR point to no slowdown in economic activity: SIS announced that quarterly manufacturing sector CUR reached 83.6% in Q3, slightly higher than the average of monthly readings during Q3. The reading in Q2 has also revised downwards to 82.2% from 82.8%.

November inflation data: According to the data released by the SIS, the **WPI rose 0.75% and CPI rose 1.54% in November.** The WPI figure is below market consensus of 1.6% while the CPI figure is in line with the market expectation of 1.5%. The core inflation reading was even more encouraging at 0.2% (the market consensus was 0.9%). With these MoM figures,

the YoY CPI and WPI inflation numbers fell to 9.8% and 14.4%, respectively, from 9.9% and 15.5% a month ago. It is seen that lower than expected 1.2% increase in agricultural prices and only 0.4% rise in manufacturing prices drove the WPI lower. November inflation figures confirm the year-end CPI expectation of 10% for 2004.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

The IMF team arrived in Turkey on November 29, for the last round of the new 3-year Stand-By program talks: The IMF meetings are expected to continue for 2 weeks – the banking act, social security and tax issues are on the top of the agenda. The government submitted a 3-year economic program to the EU and the IMF program will probably be anchored in the targets and policies listed.

Turkey was committed in acknowledging the Cyprus State and would show its determination on this matter as the negotiations begin. However, the report suggests that negotiations could be delayed, if Turkey did not comply with fulfilling its reform promises.

The European Parliament Foreign Affairs Committee has accepted the report on Turkey compiled by the Dutch Parliament Eurlings. The Parliament report (due to be formally adopted by the full house after a plenary debate on December 14 just before the summit) recommends that the conditional membership negotiations with Turkey should begin and that the special status clause should not be accepted. The report emphasized that

Russian president Putin in Turkey: Putin has arrived in Ankara on December 5 and began his meetings with Turkish officials. It's the 1st Russian leader to visit Turkey over the last 32 years. His agenda includes a wide range of issues such as joint effort against terrorism, economic program on energy issues and Russia's veto of a UN plan aiming at lifting the economic isolation of the Turkish Republic in Northern Cyprus. The primary issues to be considered at the meeting will be the Russian conflict with Chechnya.

COMPANY NEWS

Isbank has received US\$600mn securisation loan, which will be based on the fund transfers of the bank. The loan will be formed of 3 tranches, which will have duration of 7, 8 and 10 years. 1st two tranches of the loan, which amounted to US\$500mn, have been insured by MBIA Insurance Corporation and Ambac Assurance Corporation. The loan has been transferred to Isbank's accounts as of Nov. 22, 2004. The bank also released its 9M04 BRSA consolidated financials with a net earnings figure of US\$466mn (9M03: US\$334mn).

Finansbank received the US\$350mn securisation loan from abroad with a cost of borrowing of Libor +2.35% interest rate. The bank also announced its 9M04 BRSA consolidated financials with a net earnings figure of US\$110mn (9M03: US\$104mn).

Garanti bank reported net earnings of US\$267.3mn in 9M04 on BRSA basis vs. US\$191.9mn in 9M03.

Disbank announced its 9M04 BRSA consolidated financials with a net earnings figure of US\$17mn, which was US\$73mn in the same period of 2003. In 3Q04, Disbank posted a net earnings figure of US\$39mn, which was a loss figure of US\$29mn in 2Q04. Significant recovery at the bottom line is mainly attributable to the significant trading income recorded in 3Q04.

Yapi Kredi Bank released its 9M04 BRSA financials with a net earnings figure of US\$-15.6mn which was US\$22.1mn in the same period of 2003.

Akbank will purchase BNP Paribas & Dresdner Bank's 60% stake in BNP-Ak-Dresdner Bank in which the bank has the remaining 40% stake. The completion of the transaction will enable Akbank to pay SDIF premiums with a 50% discount over the next 2 years.

Erdemir released its 9M04 TR GAAP inflation-adjusted consolidated financials with a net earnings figure of US\$421mn, significantly better than the market expectation of US\$343mn.

THY reported US\$81mn net profit in its 9M04 financials on IFRS basis, up from US\$5mn in the 1st half of 2004 and better than tax reporting of US\$70mn. Comparable 3Q03 financials are not available.

Petkim announced its capacity increases that would be launched in some of its production facilities in 2005:

Facility	Investment (TL trl)	Current Capacity (ton)	Capacity Increase	New Capacity
Ethylene	146	400,000	120,000	520,000
Taype	110	190,000	120,000	310,000
PP	46	80,000	64,000	144,000

Tupras:

- According to Tupras' GM, the company processed 20.2mn tons of crude with 2.2% annual improvement in the 10-month period of 2004, underlining the year-end target of 24.4mn tons. The company sold 19.9mn tons of refined products during the mentioned period while export revenues reached US\$746mn with a year-end target of US\$1bn.
- Following the cancellation of Tupras' sale, Fitch Ratings stated that it is likely to remove Tupras' senior unsecured local currency rating BB+ and Tatneft's senior unsecured B ratings from Rating Watch Negative.
- Tupras announced US\$273mn of net profit in its 9M04 financials on CMB inflation adjusted basis, better than the consensus of US\$220mn and also higher than the net earnings figure previously reported for tax purposes (US\$260mn). A comparable figure

is not disclosed for the same period of 2003. Net profit in 3Q04 represents a 39% QoQ real growth over 2Q04.

Cukurova Group: Cukurova Investment N.V. announced that it sold 0.166% of its 5.054% stake in Turkcell to a foreign investor on November 29, 2004. The sale was not executed at the stock exchange. In addition, they are planning a call spread option to buy back the same amount of shares in the following 6 months. Regarding the payment due by the Cukurova Group (CG), the SDIF anno.2004 that according to their agreement dated 04.08.2004, CG made the US\$15mn instalment payment on time on 30.11.2004. Furthermore, on December 1st, the foreign partner of Turkcell, TeliaSonera, visited BRSA and SDIF officials regarding Cukurova Group's debt payment and the purchase of Turkcell's shares, which are held as collateral.

POAS announced its IFRS net profit as US\$24.8mn in 9M04 in line with market consensus of US\$30mn. This figure represents a 85% YoY decline over 9M03 and a 224% QoQ increase over 2Q04. On the other hand, it is better than the profit before tax that was previously announced for tax purposes (US\$13.7mn).

Enka Insaat announced its IFRS net profit as US\$191.2mn in 9M04, in line with market consensus of US\$175mn. A YoY comparable figure for 9M04 is not disclosed. On QoQ basis, the company attained a 122% QoQ surge in its net earnings in 3Q04, thanks to a recovery in power plants' earnings compared to 2Q04 as well as an additional 24% stake acquired in the 3 power plants at the end of 2Q04.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

Tupras: Regarding the appeal against a local administrative court's decision to cancel the privatisation tender block sale of Tupras by the Privatisation Administration (PA), the Council of State's 10th court finally approved the local court's cancellation decision, which means that the sale process is over. Now, the government is likely to search for new alternatives such as SPO or another block sale, for the privatisation of Tupras in the following period, possibly in the coming year.

Turk Telekom: the privatization tender for TT's block sale started on November 25, 2004. Head of the Privatization Administration Kilci announced that interested investors would apply for pre-qualification by January 11, 2005. The companies qualified for the tender will be subject to due diligence as of February 1, 2005 and are required to submit their bids by May 31, 2005. Kilci also said that they could consider a public offering after the block sale.

THY: Regarding the SPO of Turkish Airlines, ISE's board announced that there will no trading in THY shares starting from the announcement of the offering circular (on November 28, 2004) until the day following the sale on the wholesale market. Furthermore, the preliminary demand results and the public offering price of THY had been announced and the price will be TL6,975. The SPO consists of 20% of THY shares. However, the public demand during the privatization was five fold this offering, putting upward pressure on the THY share price. Final demand was collected between December 1-3 and THY will then begin trading again on December 9.

Erdemir: Arcelor's CEO stated that they would bid for 49% of Erdemir and such stake could be worth about US\$1bn, implying a US\$2bn valuation for the company.

Tender for natural gas contracts: Among the investors obtaining specifications for transfer of natural gas contracts to the private sector are Koc Holding, Sabanci Holding, Tahincioglu and Habas. BP, Shell, Total and Gasprom are also reportedly interested in the tender. BOTAS will transfer 64% of natural gas consumption to the private sector. Deadline to submit bids expires on January 20, 2005.

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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