

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		NTL/USD
17.4%		1.31
Most actively traded T-Bills		
Date	Maturity	C/Rate
14/01	05/07/06	18.10%
ISE-100 index		
NTL 27,813 (\$2.12)		

The Central Bank FX reserves: rose to all time high level of US\$37.2bn. up by US\$3.3bn thanks to Eurobond issue and CBT direct FX purchases.

Treasury targets to borrow NTL9.7bn (US\$7.2bn) from the market versus its NTL11.3bn (US\$8.4bn) redemption to the market, implying a 86% market rollover ratio in Feb. Treasury also announced that it could draw some portion of the IMF financing following the approval of the new stand-by.

Treasury also considers issuing 3 to 5-year NTL denominated G-bonds.

The following table depicts results of auctions held in the last 3 weeks:

Issue	Mat. Date	Mat. month	Bid TL trl	Sales TL trl	Cov %	Net Sales TL trl	Ann. Comp Yield (%)
19/01/05	20/04/05	3	3,940	2,250	57	2,157	18.40
19/01/05	17/10/07	33	1,002	341	34	1,406	17.17
26/01/05	09/11/05	10	2,081	1,279	61	3,340	19.64
26/01/05	09/08/06	19	6,083	3,297	54	4,819	19.74

Cash Primary Surplus reached NTL3.1bn (US\$2.3bn) in Jan. Treasury had projected a cash primary surplus of NTL1.4bn (US\$1.05bn) at the beginning of Jan.

Consolidated Budget Debt Stock: Treasury announced that total debt stock declined TL5.6qn (\$4.2bn) in December to TL316.2qn (\$236bn). The decline resulted from the fall in domestic debt stock to TL224.5qn (\$167.4bn), down by TL1.2qn (\$895mn) and contraction in the external debt stock by TL4.4qn (\$3.3bn) to TL91.7qn (\$68.4bn).

Budget Targets have been met: PM Erdogan announced Primary Surplus reached US\$18.4bn despite a primary deficit of US\$1.25bn for

December. IMF defined primary surplus reached US\$15.3bn. or 5.12% of GNP compared to the 2004 target of 5.03%.

Special Consumption Tax increased on tobacco and alcoholic beverages targeting to yield 0.5% of GNP in order to make 2005 budget revenue targets viable.

Consumer Confidence Index rose 2.4% MoM in December to 105.2 while the aptness to purchase consumer durables reached 137.9 in December, up from 131.8 in Nov.

December 2004 Foreign Trade Data: According to the figures revealed by the SIS, Turkey's export revenues were US\$6.2bn in December, up 35.8% YoY and the highest monthly figure ever recorded. At US\$10.2bn and up 24.1% YoY, the imports volume was also the highest monthly figure ever recorded. The full year trade deficit reached US\$34.4bn.

As a consequence, **Current Account Deficit** reached US\$3bn in December bringing the full year deficit to US\$15.6bn. or 5.2% of GNP

Significant decline in Jan exports: Turkish Exporters Ass. (TEA) announced that exports reached US\$5bn in January.

Inflation Figures: According to the data released by the State Institute of Statistics, under the newly adopted indices, the CPI rose 0.55% in January, lower than the market consensus of 0.9%, and the PPI, replacing the old WPI index, declined 0.41%. YoY, PPI stood at 10.7% while CPI declined to 9.23%.

IN BRIEF

IMF: Turkey will redeem US\$8.7bn to the IMF this year while the net payback will be US\$4.5bn provided that the stand-by is signed without delay. The highest redemptions are due in May with US\$2.1bn, in August with US\$1.7bn and in Nov. with US\$1.8bn.

Credit Card Transaction Volume surged by 71% YoY to US\$46bn in 2004.

Tourist numbers increased by 24.6% in 2004 and reached 17.5mn people. The total tourism income in 2004 amounted to US\$15.9bn.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Prime Minister Erdogan: promises no delay in Customs Union Agreement which incorporates ten new members of the EU to the Customs Union Agreement. Turkey's signature would imply de-facto recognition of Cyprus.

- Continues to criticize US for its failure to bring democracy in Iraq and of ignoring Turkey's sensitivities on the delicate balances in northern Iraq, accused US of overlooking the Kurds' efforts to alter the demographic structure of Kirkuk

- Pointed out his administrative support for the farming and stockbreeding industry. The support includes the pardoning of the farmers' accumulated electricity bill interests, providing more help regarding fertilizers and gasoline and giving 2.5bn YTL worth of credit with 10.5%-19.5% interest (the previous rate was around 30%)

US ease sanctions in N.Cyprus: US companies which are members of US Corporations Association (ie. Amex, Citibank, Motorola, UPS) will be permitted to market

their products in N. Cyprus, as a first step to direct trade which could be perceived as de-facto recognition of N. Cyprus.

CHP's,(opposition party) extraordinary general convention re-elected Mr. Baykal as its leader.

French Parliament approved a legislation seeking to reduce discrepancies between French and EU Constitution. The legislation also envisages holding a referendum for Turkey's membership when due.

US Secretary of State Rice's visit: Ms. Rice met President Sezer, PM Erdogan and FM Gul to provide comfort regarding potential developments in post election Iraq.

COMPANY NEWS

Digiturk & Superonline tenders:

- Dogan Yayin Holding (DYH) and TF1 as well as Global Investment and CanWest, Canada's leading international media company signed exclusivity agreements to bid for 90.64% stake in Digiturk which is Turkey's only digital TV platform and holds the broadcasting rights of the Turkish Super League for which it is liable to pay \$125mn per season. It currently has 870.000 subscribers with an expected turnover of US\$250mn in 2004. Other companies that are interested in either Digiturk or Superonline, or both are: News Corporation (Robert Murdoch), Groupe Canal+, Orbit Communications (largest digital platform company of the Middle East), Myriad International (South Africa), Gulf DTH (owner of Showtime Channel), Viasat Broadcasting (UK), AIG Emerging Europe (US Private Equity Comp.), Advent International (US Private Equity Comp), RP Capital UK, Providence Equity Partners. Interested Turkish Companies are: Park Holding, Borusan

Communications, OYAK, Isnet, Mynet Media (ISP), Akkok Group, Yasam Yayin, Interkom Telekom

DYH will also bid for 97% of Superonline (a leading Turkish ISP). Above tenders are opened by Yapi Kredi Bank and Fintur.

- Chairman of Digiturk urged YKB (Yapi Kredi Bank) to stop the tender process for Digiturk arguing that the potential 12 months option to be granted by Koc Financial Services to Cukurova Group regarding Digiturk has created uncertainty which could undermine the sale of Digiturk. YKB Board will evaluate the suggestion.

POAS: declared that the PA charged US\$9mn of interest for the delay in payments in 2004 until Jan19, 2005 and they they will reject this amount and may go to Court.

Turkcell:

- Fitch Ratings has upgraded Turkcell's foreign currency rating to 'BB-' from 'B+' and stated its outlook as "Stable".
- A Parliamentary commission in Iran limited the stake of Turkcell to 49% (lowered from the previous 51%) in a consortium, which bid for the license to operate the country's nation-wide GSM network. However, this is not the final stage in the approval process as "security and economic problems" related to the deal will be submitted to the parliament. Turkcell announced that they might withdraw from Irancell, as 49% share restricts its managing and controlling rights and the ability of Turkcell to consolidate Irancell's financial results into Turkcell's financial statement.
- Settled its interconnection dispute regarding the call termination pricing terms of the interconnection agreement with Turk Telekom.
- Started its GSM operations in Ukraine effective Feb 1st 2005.

Isbank: announced that there are 4 interested parties regarding the sale of its 54.7% stake in Izdemir, long steel producer located on Aegean coast. Mittal Group is rumoured to be among those parties.

Akbank: signed a share sale and purchase agreement with BNP Paribas, Société Jovacienne and Dresdner Bank AG to buy the 60% stake in BNP-AK-Dresdner Bank for €57.3mn (US\$75mn). Akbank will own 100% of the bank.

Tupras:

- Fitch Ratings affirmed Tupras' senior unsecured local currency 'BB+' rating and removed it from rating watch negative. Fitch had placed rating watch negative rating for Tupras on Jan16, 2004 after Efremov and Zorlu made a joint bid to purchase 65.76% of Tupras due to uncertainties regarding the transaction and Tatneft's weaker rating.
- Announced that it met its production and sales targets, as it processed 24.5mn tonnes of crude oil and produced 22.76mn refined products and increased its capacity utilization rate from 86.7% in 2003 to 88.8% in 2004, and aims to reach 90.6% in 2005. Gross revenues stood at US\$14.4bn last year and the company targets US\$14.3bn. revenues this year, attributing the decline to lower prices. Tupras expects sales volumes to increase by 5.4% up to 32.3mn tonnes and total crude oil processed to rise to 25mn tonnes.

- Tupras' refining margins decreased from US\$6.6 per barrel in Nov. to US\$5.3 per barrel in Dec. Average refining margin per barrel was US\$4.3 in 9m04, US\$5.2 in 3Q04 and US\$6.3 in the 4Q04.

Turkish Airlines: hampered by high jet fuel prices and the strong local currency in 4Q04. Despite increasing number of passengers from 10.5mn in 2003 to 12mn in 2004, THY's earnings are likely to halve from \$154mn in 2003. THY's net income stood at US\$81mn in 9M04. The number of landings reached 106 thousand representing 5.2% YoY increase and total cargo and mail volume increased from 123.4 thousand tons in 2003 to 134.7 thousand tons in 2004. Load factor increased from 67% in 2003 to 70% in 2004.

- THY decided to lease 2 airbus until April 2009. This will be an operational lease.

Enka Construction applied for pre-qualification of 2nd phase Marmaray Project with Bechtel. Other consortia bidding are Alsim/Alarko-Heitkamp-Deilmann-Haniel Gmbh-Elecnor-Inabensa, Dogus Construction-Alstom Transport SA-Marubeni Corp., Astaldi-Ansaldo, Gama-Nurol-Bombardier, Movlem-Yuksel-Parsons, Mitsubichi Heavy Industries-Mitsubishi Corp., Siemens-Yapi Merkezi-Kiska. The funding €800mn, will be provided by European Investment Bank. The Min. of Transport will select 5 consortia that meet tender qualifications until March 2005.

Yapi Kredi Bank's BOD refuse Cukurova Holding's application to exercise the option for the repurchase of 1.8% of Turkcell shares which were acquired by the bank on Feb 26th 2004 against Cukurova's 2003 annual interest payment on the US\$2bn restructured receivable.

Koc Financial Services (KFS – the 50-50% Koc Group & Unicredito JV) and **Cukurova** have signed a Share Transfer Agreement for the sale of **Yapi Kredi Bank's** 57.42% stake. YKB is valued at US\$2.7bn (equivalent to €2.050mn), which will be subject to adjustments in accordance with the due diligence and financial statements to be prepared at completion. A tender call to minority shareholders will take place. A substantial part of CH's sale proceeds will go to reduce YKB's US\$2.0bn group receivables.

Koc Holding stated CH got a deadline extension on its call option regarding YKB's Turkcell shares to the 12 months following the deal closure date. If CH purchases the 13.1% within the 6 months after the completion of the banks sale, KFS will grant CH a pro-rated €55mn reduction in exercise price. If Turkcell option is not exercised within 6 months, CH will not get the reduction but pay the carry cost of €55mn to KOC, again pro-rated. Any dividends received from Turkcell in the meantime would be deducted from CH's payments.

Koc Holding: stated that the Holding's consolidated revenues reached US\$16.2bn in 2004 in line with a 24% YoY real growth. The Holding targets consolidated revenues to increase by 12% in real terms in 2005 up to US\$18.2bn. It was also stated that Koc Holding was not interested in the non-financial subsidiaries of YKB, such as Digiturk and Superonline.

Koc Group/Wal-Mart : could not reach an agreement regarding sell-off of a portion of Migros shares.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

Natural Gas contracts: Koc-Statoil JV and Akenerji obtained qualification licenses that enable them to participate in the privatization tenders regarding the transfer of Turkey's natural gas import contracts to private sector. Sabanci Holding's subsidiary Enerjisa also applied to Energy Market Regulatory Authority for this license. Tenders are expected to take place end-February. A total of 16bnm³ natural gas is planned to be transferred to the private sector.

Energy Market Regulation Board announced tenders will be held for dams and hydroelectric stations with a total power of 1000 MW. Alarko Holding, MNG, Ak Energy, Calik Group are reported to be interested in these 21 projects which will require an investment of around US\$ 1bn.

Turk Telekom: The Privatisation Administration announced that 13 interested parties were found eligible for Turk Telekom privatization, for which deadline to submit bids expired on May 31, 2005. Interested parties are as follows: Belgacom SA, Dogan Group,

Alliance of Emirates Telecommunications Corp, (Etisalat)/Cetel Calik Enerji/Dubai Islamic Bank, Koc Holding/Sabanci Holding, Mapa, Multi Global Link Sdn. Bhd., Oyak, Saudi Oger Ltd, SK Telecom, Telecom Italia International N.V, Telefonica SA, Turkish Privatisation Investors S.ar.l, and 14 member alliance led by Turkcell BNPP advises Turkish State on this privatization project.

Turkish Airlines chairman announced there might be another public offering of a 25% stake in the company once the lock out ends in May05 and revealed plans to make public offering of its 50% participation Sun Express.

Erdemir: Largest steel company in the world, Mittal Steel, is planning to offer US\$1bn for Erdemir's Privatized shares (46%). Arcelor, Corus, Novolipesk and Severstal are also among the interested parties. The block sale will start end-March 2005.

Tupras: Block sale of 65.76% is likely to begin by April, roadshows will be held abroad, yet the stake to be sold is not set as yet.

*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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