

TURKISH BULLETIN

Sema Buldanlioglu + 90 212 293 00 32

e-mail: sema.buldanlioglu@bnpparibas.com

ECONOMY & MARKET

MARKETS

At Monday's close, market situation was:

O/N for ISE Repo market & TLR Interbank market		NTL/USD
17.3%		1.30
Most actively traded T-Bills		
Date	Maturity	C/Rate
21/02	09/08/06	18.05%
ISE-100 index		
NTL 26,864 (\$2.06)		

The Central Bank

- lowered O/N rates by 50bps to 16.5%, third rate-cut reaching to an overall 350bp rate cut in the last 3-months.

- FX reserves declined US\$477mn to US\$35.5bn due to external debt redemption and weakening Euro against USD.

Treasury - mandated UBS and Deutsche Bank for a 12-year Euro denominated Eurobond issue and has sold €1bn worth of 12-year 5.50% coupon paying Eurobond at 5.695%. Demand was strong at €4-5bn. Treasury has already raised \$2bn through Eurobond issues so far (excl. this issue) versus its full year target of \$5.5bn.

- To issue 5-year NTL denominated bond in foreign markets. Foreign banks have issued NTL1.83bn (\$1.4bn) worth of bonds so far this year.

- To issue 10-year NTL denominated Eurobond subsequent to the positive reception of the debut 5 year NTL issue last week.

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

Issue	Mat. Date	Mat. Month	Bid NTL mn	Sales NTL mn	Cov %	Net Sales NTL mn	Ann. Comp Yield (%)
09/02/05	11/05/05	3	3,279	1,932	59	1,856	17.33
09/02/05	27/09/06	20	4,563	1,293	28	3,591	17.62
16/02/05	10/02/10	60	2,274	765	34	2,764	15.15
16/02/05	13/02/08	36	679	305	45	1,125	Libor+1.60Fm

PPI-based Real Effective Exchange Rate rose 3.74% MoM to 135.8 in January while the CPI-based REER surged 4.75% to 149.9 in the same month. *Oyak7th*

IP Growth: YoY growth reached 4.7% YoY in December, exceeding the market expectation of 2.8%. Strong 36% increase in exports and strong

capital spending of the public sector were the driving forces.

Capacity Utilization Rate in Jan was 76.3%, down from 77.2% a year ago. Seasonally adjusted data point to 6.7% decrease in MoM terms.

Budget 2005: posted a deficit of US\$740mn and a primary surplus of US\$3.1bn in January, well above the level recorded last year. Compared to Jan. 2004, both tax and non-tax revenues recorded real increases, while expenditures declined in nominal terms.

Consolidated Budget Debt Stock – Jan increased by US\$4.7bn from US\$235.7bn to US\$240.4bn. Domestic debt increased by US\$4.9bn to US\$172.2bn.

IN BRIEF

IMF: objects to extending the scope of investment incentives to poor provinces as the 2005 budget did not allocate any financing for an expansion of the incentive plan.

Finance Minister Unakitan said the Government would find the appropriation for the incentive plan through investment cuts, Special Consumption Tax (SCI) hikes or transferring between budgetary appropriations.

Automotive: Automotive Distribution Association (ADA) announced passenger car sales declined by 54.8% to 11,595 units and light commercial vehicle (LCV) sales by 11.8% to 9152 units in January. 71.5% of total car sales and 47.8% of total LCV sales were imports.

Moody's changed Turkey's outlook to positive, on the back of impressive economic performance and positive prospects of EU accession. Turkey's NTL debt rating was upped to B1 citing improvements in domestic debt dynamics and its sovereign credit rate now stands at B1, four notches below investment grade.

S&P confirmed Turkey's sovereign and domestic currency ratings at BB- and BB respectively, a stable outlook was maintained. Sovereign rating stands three notches below the investment grade.

International Investors placed \$3.6bn of buy orders and \$2.8bn of sell orders on the ISE in January, hence were net buyers with \$809mn. Foreign holdings on the ISE amounted to

\$18.9bn as of end-January from \$16.1bn as of end-2004.

Number of tourists rose 31.2% YoY in January to 700.500.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Prime Minister Erdogan: denied reports that the government was working on a draft law on lifting ban on wearing headscarves in public places including universities. However, Erdogan had spelled out his plans to lift the ban during an interview at Davos.

Banking Draft Bill empowering the BRSA (banking watchdog) for oversight for all type of financial intermediaries including non-bank financial intermediaries (Special Financial Houses) expected to be submitted to the Parliament soon; defines the ownership rules for the banking and financial services sector. Objective being the harmonization of the banking system with the EU norms via increasing regulatory and monitoring capacity of BRSA.

Corruption at energy and pharmaceutical sectors The Government to investigate into corruption allegations pertaining to the energy tenders over the past two years. Seven high level bureaucrats and businessmen arrested on charges of corruption. 26 Roche Turkey and state-run Social Security employees were taken into custody for an alleged corruption in pharmaceutical sales to Social Security.

Tourism & Culture Minister resigns: Erkan Mumcu resigned from his post and the AKP, due to various sources of friction. The new seat distribution in parliament is AKP 365, CHP 171, and DYP 5.

Draft Law encompassing changes in 25 existing laws including 1. The debt of the

Saving Deposit and Insurance Fund (TMSF) to the Treasury will be abolished, 2) The Treasury will be able to buy back or swap its foreign debt issuances were accepted in the Planning and Budget Commission.

Limitation of 49% for foreign TV ownership is to be lifted. Parliamentary Commission changed the article regarding the limitation in TV and radio ownership and altered the draft law to lift this restriction completely. Foreign broadcasters will be able to own 100% of a national TV channel. The aim is to increase interest in Star TV (one of the leading national TV channels previously owned by Uzan Group) which is to be sold by SDIF.

EU wants Turkey to eliminate religious discrimination; the practice of obligatory religion classes in primary schools and remove the "religion" field from national ID cards.

US have asked for the use of Incirlik base as a transportation center in operations.

French Senate adopted Constitutional package enabling referendum on Turkey's EU membership.

Pro-reunification party wins Turkish Cyprus elections securing 4.4% of the votes, which translates into 25 seats in 50-seat legislature, one short of majority. The runner UBP had 32% of the votes. The election outcome imply a new coalition, yet confirms strong public support for a resolution and is likely to boost peace efforts in the island.

COMPANY NEWS

BNP Paribas

- The shares representing 50% of TEB Financial Investments, which in turn owns 84.25% of TEB, the bank, were sold to BNP Paribas for \$217mn. by Colakoglu Group on 10 February 2005. Varol Civil, GM of TEB stated that they wanted to expand their retail

banking business and planned to increase number of branches to 150 from current 90 within five years.

TEB announced its FY04 BRSA bank-only results: net earnings of US\$25.3mn in FY04 vs US\$36.5mn in FY03. Total assets and book

value stood at US\$2.668mn and US\$295mn, respectively at year-end 2004. ROAE and ROAA stood at 8.8% and 1.0% respectively in FY04. As of the end of 2004, the bank's capital adequacy ratio stands at 14.29%.

Dogan Holding and Is Bank: sold total 23.28mn POAS shares (3.37% stake from each) in the ISE. The proceeds amount to \$39.8mn for each. The free float will thereby increase from 5% to 12%.

Isbank announced its YE04 on BRSA bank-only results at US\$476mn (2003: US\$304mn). The annualized ROAE for 2004 stands at 10% (2003 ROAE: 9%). Adjusted net interest margin reached 8.0% (2003: 6.6%). Net fee income is at US\$531mn, 53% YoY and 21% QoQ growth in US\$ terms. Loans as of end-2004 reached US\$9.3bn. Lira loans increased by 6.2% in real terms during 4Q. FX loans grew by 8.7% YoY. NPL ratio jumped to 8.3% as of YE04 from the last two quarters' 7.7% level. FX deposit inflows increased by 16% QoQ in US\$ terms.

Akbank: announced its YE04 TR GAAP financial statements, where the bottom line stood at US\$764mn (2003:US\$951mn) down 20% YoY, implying ROAE and ROAA ratios at 19% (2003:34%) and 3.4% (2003:5.5%) respectively. Net interest income grew by 13% QoQ, maintaining the net interest margin for the quarter at 9.2% (3Q04:9.2%). Top-line growth decreases to 6% and 2004 adjusted net interest margin stands at 7.6% declining from 13.2% in 2003. Fee income was US\$319mn (126% YoY growth).

Yapi Kredi Bank released its FY04 results prepared for tax purposes, a net loss of US\$46mn, mainly due to significant provisions booked in 4Q04 amounting to US\$240mn arising from the fixed asset and participation sales.

Denizbank announced its YE04 TR GAAP unconsolidated and consolidated net income as US\$92mn (2003: US\$68mn) and US\$102mn (2003: US\$78mn), implying 21% ROAE. Unconsolidated book value stands at US\$640mn (consolidated at YE04: US\$653mn) while total assets reached US\$5.0bn. (consolidated at YE04: US\$6.0bn), growing by 24% YoY.

- Moody's rated Denizbank's local currency deposit as Baa3 for long-term and Prime-3 for short-term with a stable outlook.

Finansbank announced its YE04 TR GAAP unconsolidated net income as US\$143mn (2003:US\$112mn), implying 22% ROAE for Turkey-only Finansbank. Unconsolidated book value stands at US\$784mn while total assets reached US\$6.5bn, growing by 57% YoY in US\$ terms. Results indicated YE04 consolidated net income will be close to US\$200mn.

Disbank announced its unconsolidated net income as US\$80mn (2003: US\$123mn) implying 12% ROAE. The bank's total assets and book value stand at US\$5.3bn and US\$740mn (2003: US\$629mn).

Moody's changed the outlook of Turkish banks under the agency's coverage, including Akbank, Disbank, Finansbank, Garanti, Kocbank, TEB, Isbank and Yapi Kredi to positive in line with recent revision on Turkey's country outlook to positive.

Turkcell : Iranian parliament has approved the commission's suggestion to decrease Turkcell's stake in Irancell to 49% from the current 50.1%. Security issues related to the contract were approved by the Supreme National Security Council. Turkcell had expressed that it would reassess its position on Irancell investment in the absence of having management control/consolidation rights over Irancell as the situation would be in conflict with the license agreement as approved by Turkcell's BOD.

Erdemir reported a 2004 net income of US\$469mn in its unconsolidated financials for tax purposes, 93% up from US\$258mn in 2003.

Petkim announced its inflation adjusted 2004 net earnings as US\$46.4mn, significant YoY growth over a huge net loss of US\$184mn in 2003. 4Q04 net profit (US\$30.5mn) represents a 28% real QoQ contraction, mainly due to a rise in depreciation expense in the last quarter. Net sales reached US\$1.17bn in 2004, with a 27% real YoY growth. Gross margin before depreciation improved from 12% in 2003 and 28% in 3Q04 to 32% 4Q04., translated into a 12% QoQ real increase and 7-fold YoY real

surge in 2004 EBITDA of US\$246mn. 2004 operating profit (US\$56mn) represents a 17% QoQ real decline over 3Q04 (US\$21mn operating loss in 2003).

Turk Telekom posted US\$1.6bn net profits in 2004, up from NTL 1.948mn in 2003. Profits include extraordinary income of NTL1.531mn generated from the settlement of legal disputes with Turkcell.

Turkish Airlines to lease 3 Airbus until 2009 and 2010 subject to approval of the Privatization Administration.

Tupras's refining margin is reported at US\$2.01/bbl in January 2005 and Mediterranean complex at US\$1.67/bbl, down 62% MoM due to seasonality, but also down 19% YoY.

Alarko is pursuing two new construction projects in Kazakhstan \$250mn water project and a \$350mn 600 km long highway project.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

Ziraat Bank participations, Basak Sigorta (Insurance) (56.7%) and Basak Emeklilik (Private Pension) (21.28%) to be included in the privatization portfolio and are likely to be sold in a year.

Tekel Privatization Administration extended the deadline to submit bids for the state tobacco company Tekel from Feb 18th to March 4th. Highest bid in the previous tender was \$1.15bn in Nov. 2003 and the deal was cancelled as the offer fell short of the government's expectations.

ENERGY

EMRA (Energy Market Regulatory Board)

33 companies applied to EMRA to obtain

license for natural gas imports. This license is a prerequisite to enter the tender that will be opened on Apr 25th (postponed from Feb 25th) for the transfer of BOTAS' (Turkey's state-owned monopoly for natural gas imports and distribution) international natural gas purchase contracts that include 16bn m3 of natural gas imported per annum, 2.5bn m3 of which is in the form of LNG. Some of the companies are Koc-Statoil JV (46.2% participation of Aygaz), Enerjisa (81.1% subsidiary of Sabanci Holding), Petrol Ofisi, Eregli, Ak Energy, Zorlu Energy, Shell, BP, Gasprom, Viteragaz, Mitsui, Tractabel and Statoil. The market size is expected to be \$2.5-3bn per annum.

*Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Dışbank, 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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