September 2011

Global Advantage of Turkey

DIŞ EKONOMİK İLİŞKİLER KURULU
DEİK FOREIGN ECONOMIC RELATIONS BOARD
TÜRK - AMERİKAN İŞ KONSEYİ
TAİK TURKISH - AMERICAN BUSINESS COUNCIL

BCG
THE BOSTON CONSULTING GROUP

DEİK President's Message

Dear Readers,

Turkey has achieved remarkable economic and political development in the new millennium. A sound macroeconomic strategy combined with prudent fiscal policies and major structural reforms have, over a period of 10 years, facilitated Turkey's successful integration into the global economic system. Turkey's GDP levels increased more than triple since 2002 while its GDP per capita increased from US$ 3,500 in 2002 to $10,079 in 2010. Its exports increased from US$ 36 billion in 2002 to US$ 114 billion by the end of 2010. Although the global economic crisis adversely affected the Turkish economy in 2009, Turkey proved to be one of the fastest recovering economies in the world by registering an impressive 5.9 percent economic growth rate in the last quarter of 2009 reaching a record level of 8.9% in 2010. Most importantly, Turkey did not achieve this impressive economic performance at the expense of price stability. It drastically decreased inflation from 30 percent in 2002 to 6.4 percent in 2010, an unprecedented outcome of rapid economic growth. These achievements enabled Turkey to assume a hard-won place as the 17th largest economy in the world, and 6th largest economy compared to the EU members in 2010 in terms of its GDP. Recent studies also predict that Turkey will continue to be the "BRIC of Europe" with its democratic credentials, economic model and strong private sector in the upcoming years, and rank by the year 2050 the 5th largest economy in Europe after the UK.

One of the primary factors behind Turkey's impressive development record was Foreign Direct Investments (FDI). Since the start of the new millennium, the Turkish economy attracted US$94 billion of FDI, and ranked the 15th most attractive FDI destination in the world for the period between 2008 and 2010. The EU accession process, which gathered momentum during this period, further strengthened Turkey's macroeconomic fundamentals and regulatory infrastructure rendering the Turkish economy more attractive to foreign investors. Currently, around 26,000 foreign enterprises representing a variety of sectors, including but not limited to financial services, infrastructure, retailing, research and development operate in Turkey.

However, we believe that Turkey offers more business opportunities with its young and productive population, rising income levels, growing global influence, consolidated democratic regime, liberal market economy, business-oriented legal and financial infrastructure, and strong growth potential. As a result, we initiated a series of studies aimed to explore and devise the ways in which the Turkish enterprises and their global business partners can exploit new investment opportunities. The current issue is the first report of such studies prepared in partnership with Boston Consulting Group (BCG), a leading global management consulting firm who shares our vision in making Turkey one of the global investment centers. It identifies specific sectors for mutual cooperation, and offers investors a roadmap to ensure tangible results. At a more general level, it also aims to stimulate debate about policy both by exposing potential challenges and by identifying where to look for lessons and good practices.

As Turkey's leading business association representing the Turkish private sector, the Foreign Economic Relations Board of Turkey (DEIK), is dedicated to promoting and improving foreign economic relations between Turkey and its global partners through its national and global networks. I believe that the current report is a substantial step in the right direction, and will lead to new business opportunities for both Turkey and its global business partners.

M. Rifat Hisarcıklıoğlu

President
TOBB-DEIK

Turkish-American Business Council (TAİK) Chairman's Message

Dear Readers,

Turkey's economy has displayed unprecedented growth since the beginning of the 2000s, and incredible durability and stamina in these past few tumultuous years. A carefully thought-out macroeconomic strategy as well as prudent fiscal policies and major structural reforms in effect since 2002 have all combined to help Turkey assimilate its economy into the globalised world, while transforming the country into one of the major recipients of FDI in its region.

For years, structural problems had been identified as the key roadblocks to the fulfilment of Turkey's economic potential and aspirations. The reforms carried out by the government since 2002 has seen to the elimination of most of these issues, and the EU accession process introduced a secondary momentum to Turkey's transformation into a regional economic powerhouse.

Thanks to these widespread efforts, the role of the private sector was substantially increased in the Turkish economy, the efficiency and durability of the financial sector was made sustainable, and the social security system was placed on a more solid footing. The reforms galvanised the macroeconomic fundamentals of the country, with a drastic decrease of inflation to 6.4 percent by the end of 2010, down from 30 percent in 2002, while the EU-defined general government nominal debt stock fell to 41.6 percent from 74 percent in a period of eight years between 2002 and 2010. In effect, Turkey has been meeting the "60 percent-EU Maastricht criteria" for the public debt stock since 2004.

Turkey's GDP levels more than tripled in 2010 to USD 736 billion, an incredible jump from USD 231 billion in 2002, and the GDP per capita soared to USD 10,079, up from USD 3,500 in the same period.

In 2010, Turkey's economy increased by 8.9%, one of the largest in the world. The Turkish economy grew by 11% in the first quarter of 2011, outstripping China and confirming Turkey as Eurasia's rising tiger. This figure, compared with the year-earlier period, easily beat market expectations, at a time when many of Turkey's neighbours in the Middle East and Europe struggle with political turmoil and bailouts.

In short, Turkey has emerged as a truly strong country: its industrial base is more competitive and export-oriented, its banks are better capitalised, its fiscal position is more solid and restrained, and the economy is more open to the world. This remarkable recovery is the real platform, and, in fact, foundation, for the wider Turkish revival.

Naturally, Foreign Direct Investments (FDI) also played a substantial role in this very revival. According to the UNCTAD World Investment Prospects Survey, 2008-2010, Turkey is the 15th most attractive destination for FDI in the world. As of the end of 2010, more than 25,800 companies with foreign capital were operating in Turkey. Two-thirds of them were established in the last seven years.

Nonetheless, it is somewhat unfortunate that Turkey receives a limited share from global US direct investment either from a macroeconomic or geographical perspective. Similarly, Turkey's key FDI sectors do not benefit from the large US FDI inflows. As The Turkish-American Business Council, it is our main aim to contribute to efforts to improve the environment for bilateral trade, investment, and industrial cooperation. As such, we commissioned the following report from The Boston Consulting Group to diagnose the causes for the shortcomings in the US FDI received by Turkey and offer possible solutions. It is our true belief that the report will foster an intelligent discussion and eventually serve to improve investment relations between our two countries.

Haluk Dinçer

Chairman
Turkish-American Business Council (TAİK)

Foreword

Dear Readers,

As the world is going through one of the most distressed economic periods in history, businesses and investors alike are having to look for returns in markets that did not take center stage previously. With long-term growth prospects looking weaker in most of the developed economies, more attention is already directed to developing countries that have attained a level of economic robustness even in such times of global volatility. An excellent such example is Turkey, which managed to recover swiftly from its own crisis of 2001 and the 2008-09 global crisis with a positive growth performance in every quarter since the first half of 2009.

Foreign Direct Investment (FDI) has been one of the key pillars of Turkish economic agenda since the early 2000s and the country has shown a remarkable boost in its FDI attraction performance. Today, Turkey is one of the key rapidly developing economies that hosts many multinational incumbents as well as strong local players.

Despite its recent successes in FDI attraction, Turkey still has room for further groth in terms of FDI from many developed geographies when compared to other rapidly developing economies such as India, Mexico and China. Moving on from this picture, together with the Foreign Economic Relations Board of Turkey (DEIK), we have worked on the "Global Advantage of Turkey" report.

Turkey with its structural competitive advantages is one of the key destinations in today's market context. We believe, going forward, Turkey, with its rapid growth, young population, liberal market regime, geo-political status and expanding middle class, will offer even more promising opportunities.

The following report was created with the aim of sharing lesser known key facts and figures on Turkey to highlight the commercial opportunities as well as raising discussions on Turkey's role in Global Transformation, achieving breakthrough growth for "incumbents" and "challengers".

Dorukhan Acar

Principal
The Boston Consulting Group

Burak Tansan

Partner and Managing Director
The Boston Consulting Group

Turkey's global advantage can be highlighted across 6 different dimensions

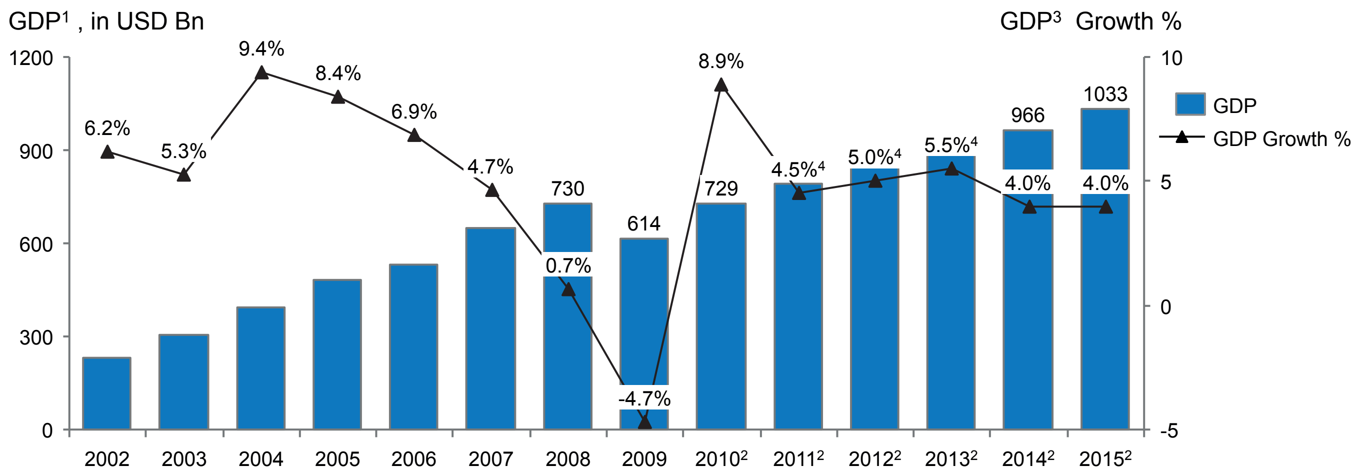
Turkey is one of the largest economies in the world, and is expected to grow even further

Key highlights

1. Turkey's GDP expected to **exceed $1 trillion by 2015**
2. Turkey ranks **15th by GDP** and **14th by GDP-per-capita**, among largest countries – has scale advantage
3. Turkey will grow with BRICs, in the wake of a multi-polar world, **maintaining its scale advantage**

Turkey's GDP to exceed $1 trillion by 2015

Annual GDP[1]



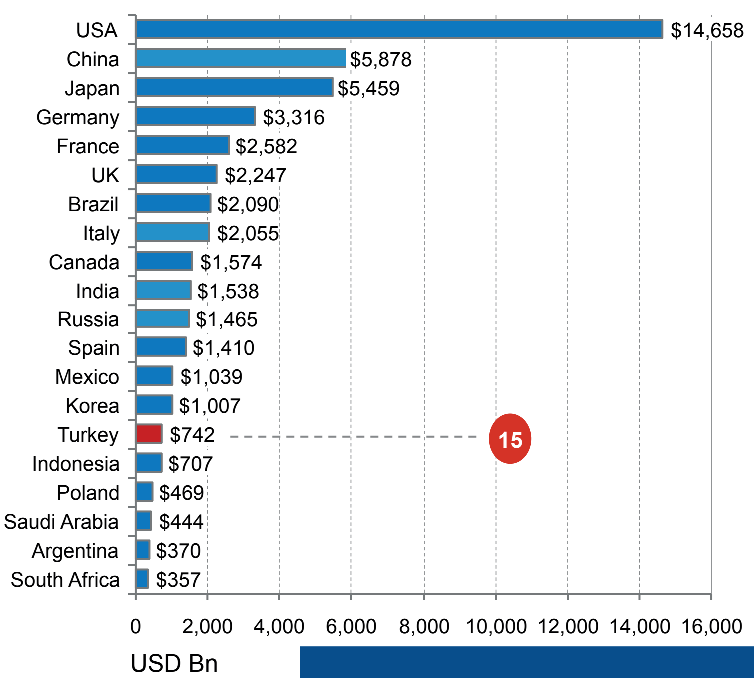
Sustained GDP growth over the next 3 - 5 years

1. Gross domestic product, current prices , in U.S. dollars 2. Data for 2010-2015 is IMF's prediction 3. Gross domestic product, constant prices , in U.S. dollars
4. Based on Medium Term Plan for 2011-2013 by State Planning Organization of Turkey
Source: IMF World Economic Outlook, Oct 2010

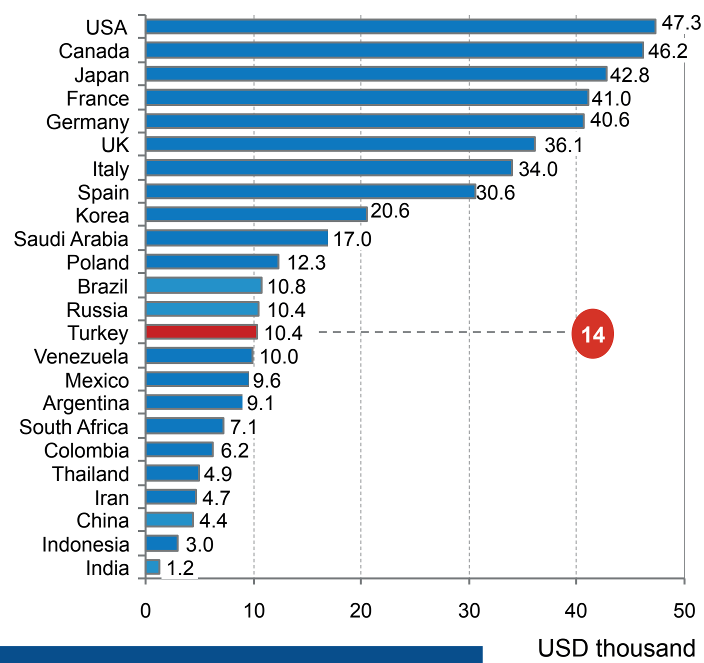
Turkey has the scale advantage

Ranks 15th by GDP and 14th by GDP-per-capita, among largest countries[1]

Top-20 in GDP[1]



GDP-per-capita[1]



Turkey follows BRIC closely !

1. Among countries GDP>$250Bn and Population>25Mn
Source: IMF World Economic Outlook, April 2011

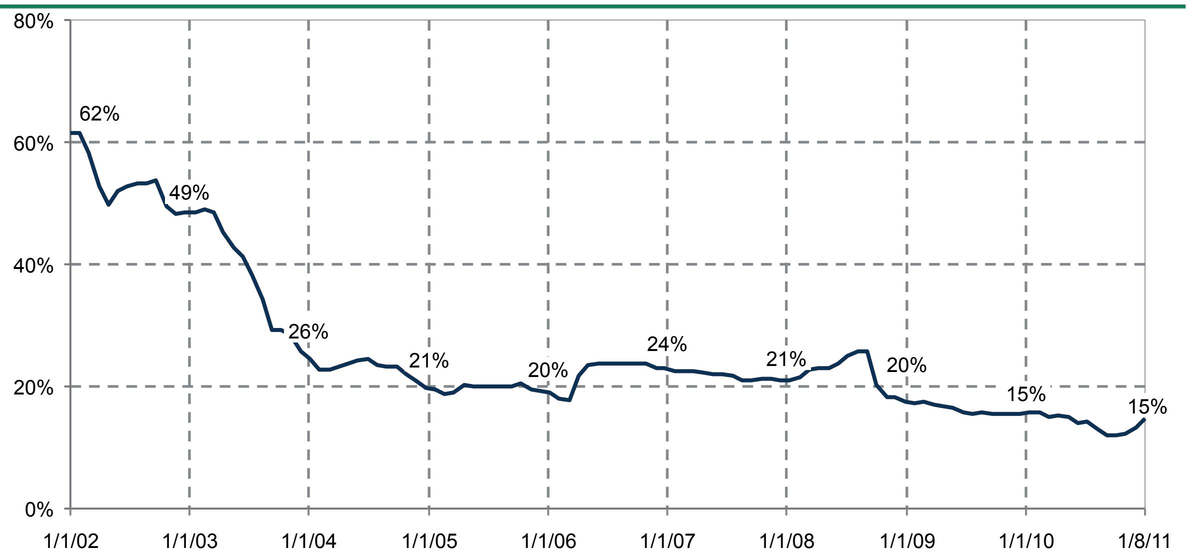
Key macroeconomic indicators yield a positive picture of Turkey, with major stabilization over the last decade

Key highlights

1. **Interest rates** have been decreasing over the past decades from ~60% levels to ~15% levels
2. **Inflation rates** have been stabilizing in the range of 5-10% after the 2004 crisis period
3. In line with inflation, the **Turkish Lira FX rates** have also stabilized over the past 5-6 years
4. Turkey has a relatively low **debt-to-GDP ratio** among Eastern European countries yet under-rated
5. Turkish **CDS premiums** have been far less volatile in comparison to other European nations over the last crisis period

Dropping interest rates catalyze economic dynamism

Annual Interest Rate[1]

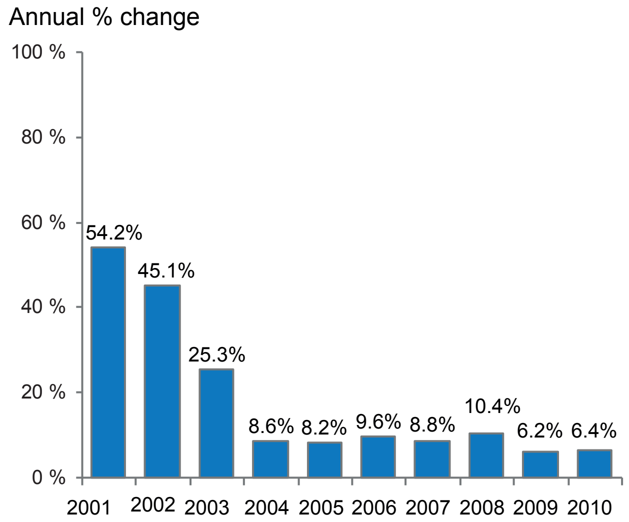


Interest rates are down to 12% and keep falling!

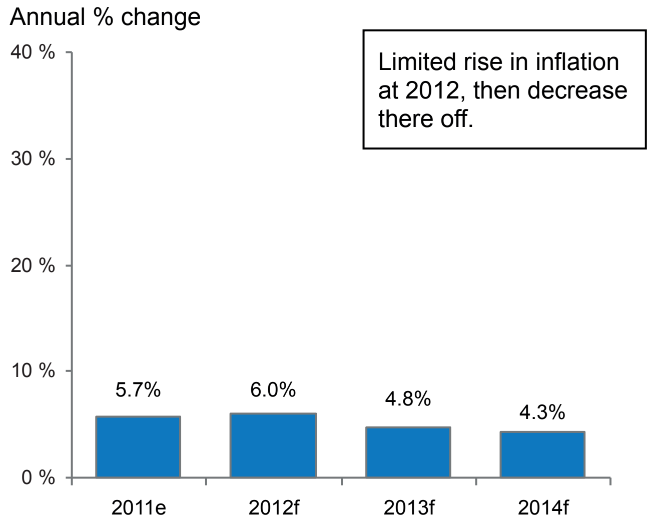
1. Wieighted average of 12 month deposit
Source: Central Bank of the Republic of Turkey

Inflation rates have been stabilizing in the range of 5-10% after the 2004 crisis period

Inflation
(Average consumer prices 2001-2010)



Expected inflation for the coming years



Inflation rates are expected to continue the downward trend in the mid-term

Source: IMF

Turkey still seems to remain under-rated in its debt servicing – has a healthier risk position vs countries with better ratings

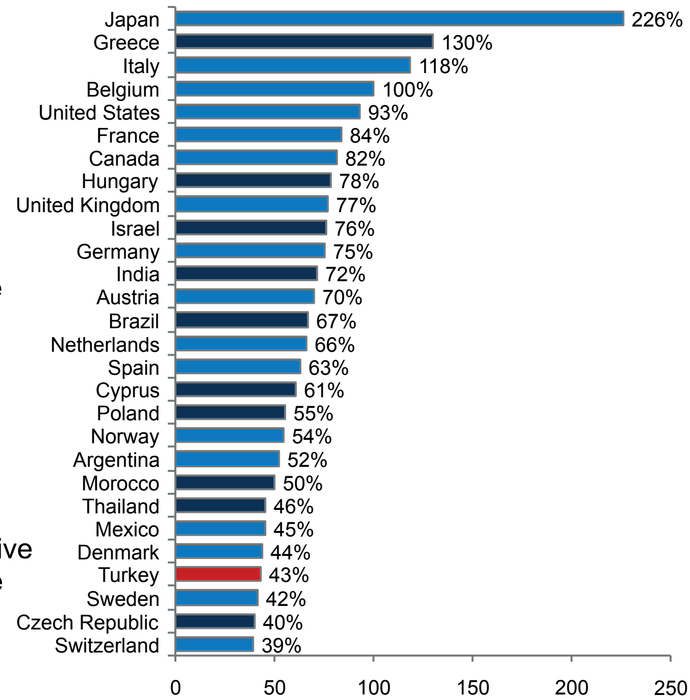
Moody's Ratings

Israel	**A1**
Estonia	**A1**
Czech	**A1**
Poland	**A2**
Russia	**Baa1**
Lithuania	**Baa1**
Hungary	**Baa3**
Romania	**Baa3**
Latvia	**Baa3**
Bulgaria	**Baa3**
Turkey	**Ba2**
Ukraine	**B2**

S&P Ratings[1]

Israel	**A**	Inv. Grade
Czech	**A**	
Cyprus	**A-**	
Poland	**A-**	
Thailand	**BBB+**	
Morocco	**BBB-**	
Brazil	**BBB-**	
Hungary	**BBB-**	
India	**BBB-**	
Romania	**BB+**	Speculative Grade
Turkey	**BB**	

Gross Debt-to-GDP % in 2010

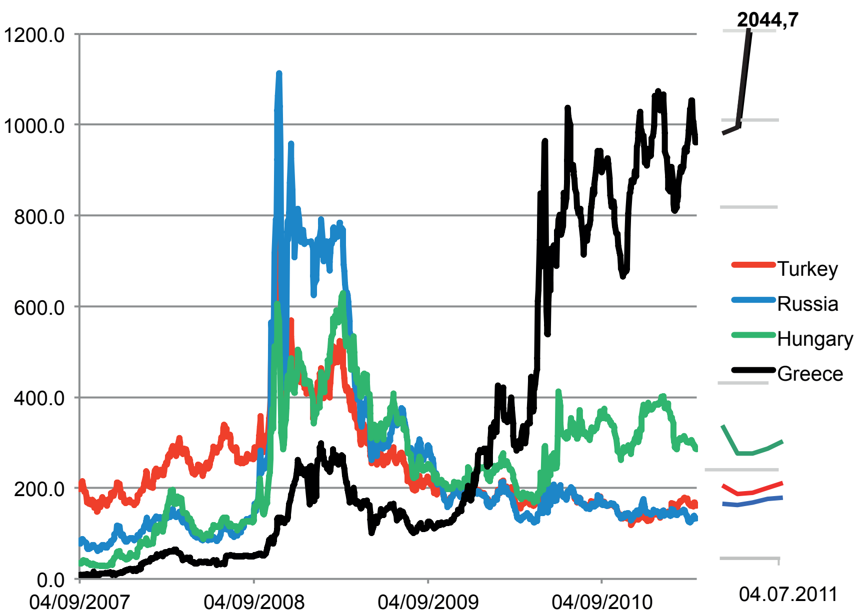


1 As of July 13th,2011, long-term debt rating in foreign currency
Source: Stardard&Poor, IMF World Economic Outlook, October 2010

Stability of Turkish economy reflects to its CDS premiums

During the global crisis major FDI attractors in Europe exhibits higher volatility

Credit Default Swap Premiums



Key Facts

- CDS premiums are priced "freely" in the market, in proportion to the risk perception for a country.
- FDI attractors with better S&P rank, actually show wider volatility and higher steady-state prices.
- Thus, Turkey exhibits higher stability and perceived as a lower risk country in the market.

Turkish CDS premium is less volatile and its current steady-state is lower than competitors with better rating !

Source: Bloomberg

Turkey's growing and young population fuels the growth of its trade volume and the rise of the middle class

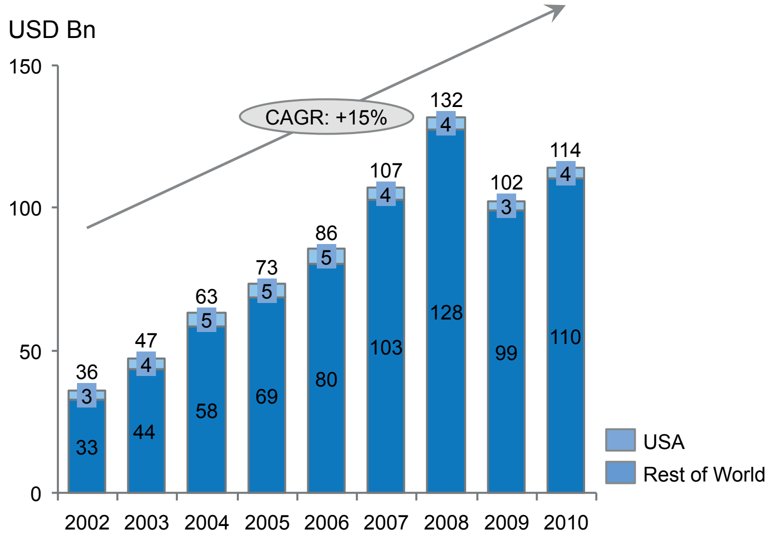
Key highlights

1. Turkey's trade volume has grown to **$300 bn** while running a trade deficit
2. Turkey has a dynamic population that constitutes an **extensive labor pool**
3. Moreover, Turkey's extensive labor pool is also **well-educated**
4. In comparison to competitors, Turkey offers a **cheaper, yet more productive labor force**
5. Turkey is already **urbanized** and the growing significance of its **middle class** is illustrated via numerous economic & social indicators

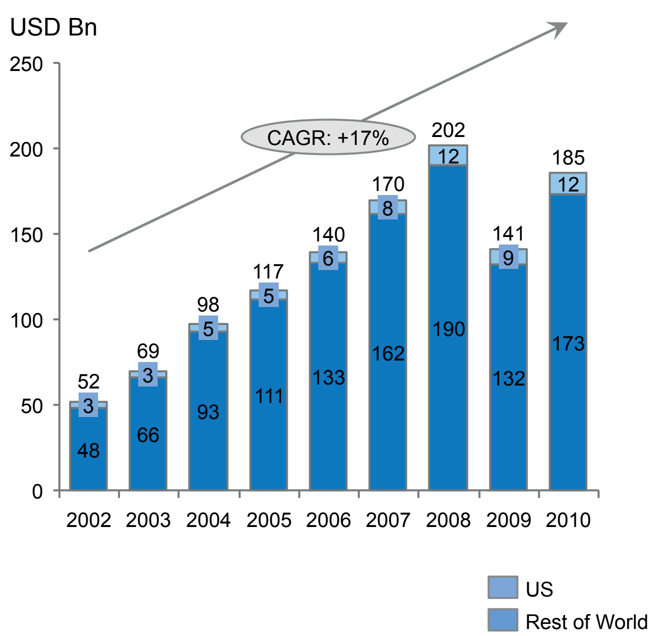
Turkey's trade volume has grown to $300 bn

Experienced trade deficit every year in the past 9 years,

Export Volume



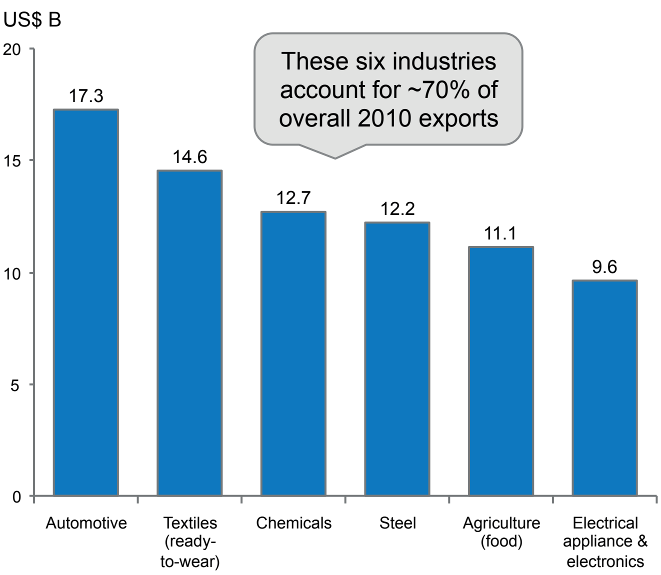
Import Volume



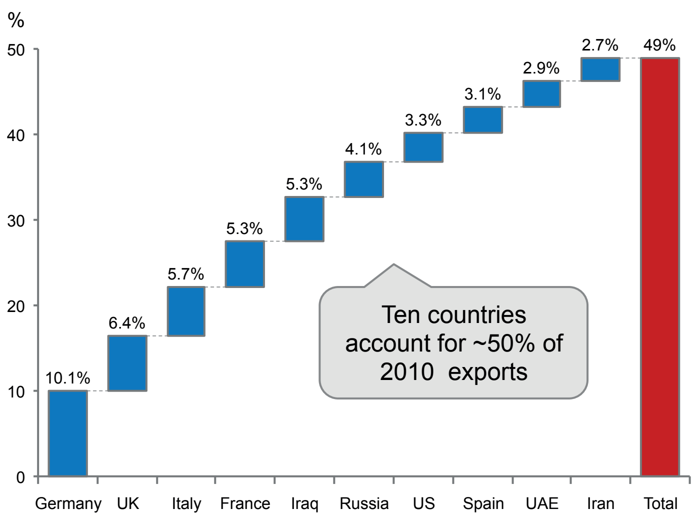
Source: TUIK

Turkey recorded 113 US$ B of exports in 2010 focused on 6 key industries

Automotive, textiles, chemicals, steel and food are the export champions



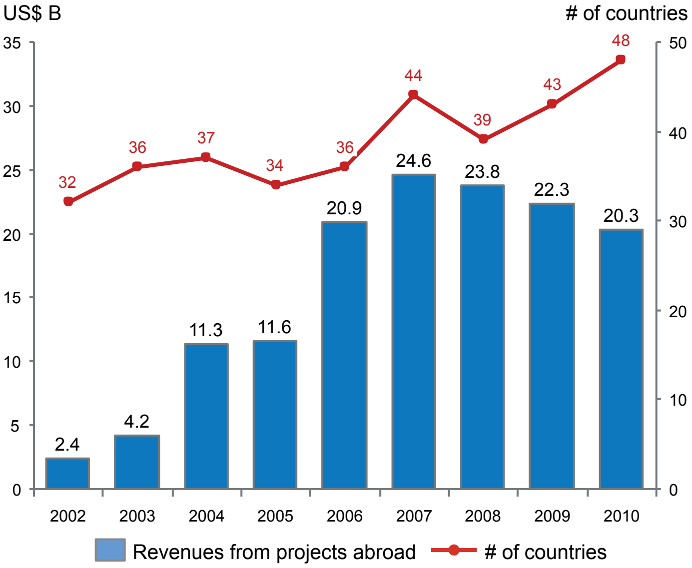
Europe, Middle East, Russia & US are the most important export markets



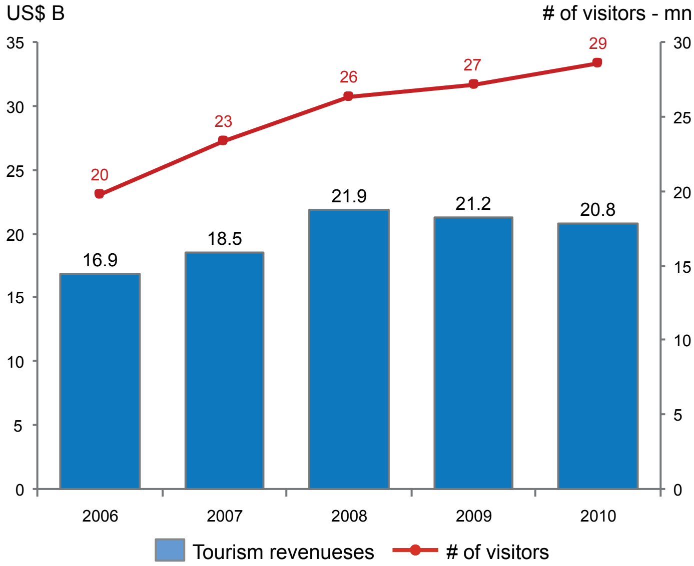
Turkey possesses a competitive advantage in these industries where global challengers can emerge

In addition, Turkey is a major global contractor and a preferred tourism destination

Turkey generates substantial revenues from construction projects abroad



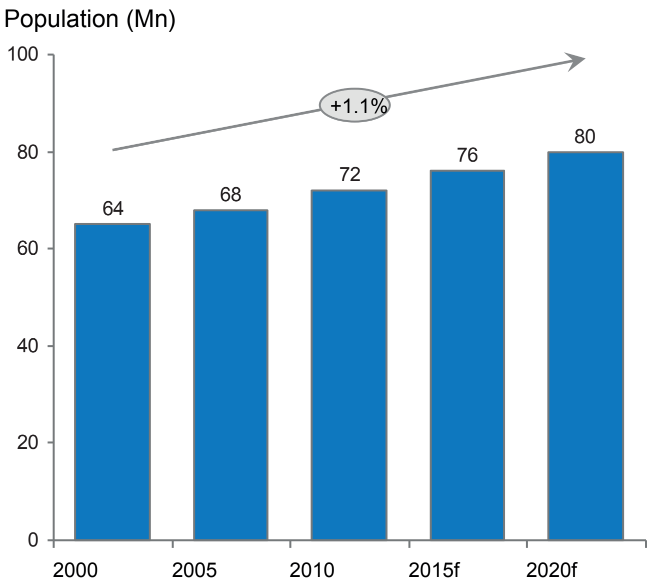
Tourism sector is a significant contributor to the economic activity



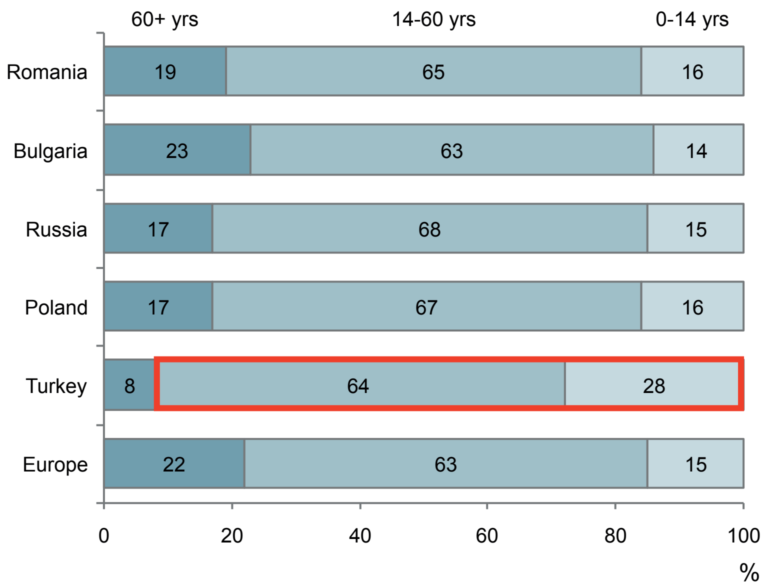
Turkey already has regional players in both industries with potential to transform into global challengers

A dynamic population forms an extensive labor pool

Large and growing population ...



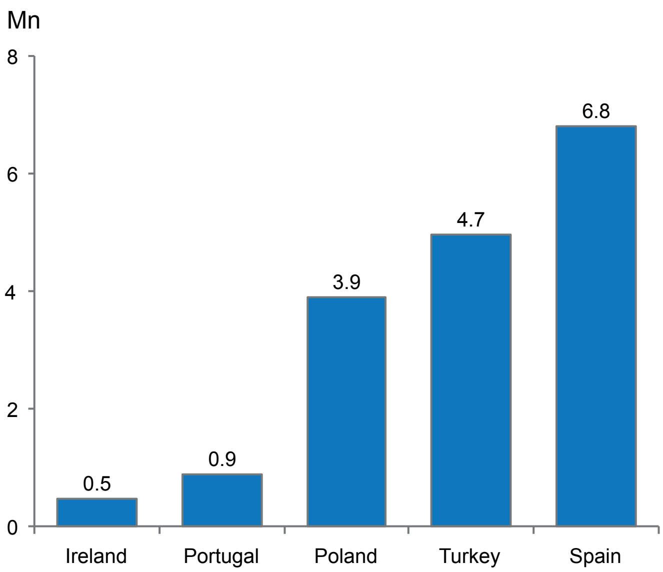
... With favorable demographics



Notes: Population of 73 million is growing steadily, European countries have reducing populations. Urbanization is taking place rapidly, making especially Turkish cities a clear economic growth area: 65% of population lives in urban areas; Growth of urban areas is 2.6% p.a. (vs 1.1% p.a. for total Turkish population); TR cities are populated by 47 million inhabitants; Large cities of Turkey are Istanbul (12m), Ankara (4m), Izmir (3m), Konya (1m), Bursa (1m) , Adana (1m) and Gaziantep (1m). Turkey's population will remain young for the coming decades. Total number of households is around 17 million up from around 15 million in 2000
Source: TURKSTAT; UN Projections

HR pool is not only large but also well educated

Comparative Pool of University Graduates



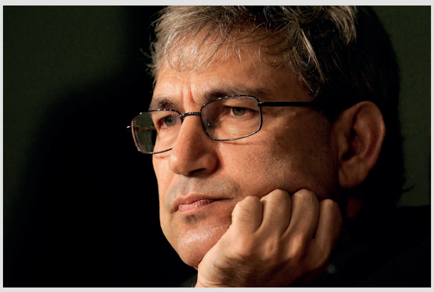
Some Key Facts

- **Turkey has the largest working age population in EU and CEE with 49,5 million people (i.e. age 15-64)**
- **Turkey has the one of the largest labor forces of EU and CEE with 22 million people**
- **Unemployment level is ~11,9% thus available labor pool to employ**
- **Labor pool is mostly educated, at least a middle school level**
- **White collar labor pool costs much less than EU**
- **Labor pool committed and motivated; also to work in the surrounding regions of Turkey**
- **There are good executive and middle management officers in Turkey- many top level Turkish executives in global Coca-Cola, Microsoft, Intel, Pepsi, Gillette, Pfizer, P&G, NBG, GE, Unilever, etc.**

1. Selected countries due to historic ties, current relations or neighoring borders; excl huge markets that all globals cover seperately such as India and Russia
Source: TUIK, IMF WEO, BCG

Turkey has a diversity of highly qualified human capital

Orhan Pamuk, *Nobel Prize Winner*



CEO, Coca Cola Company

Doctor Oz

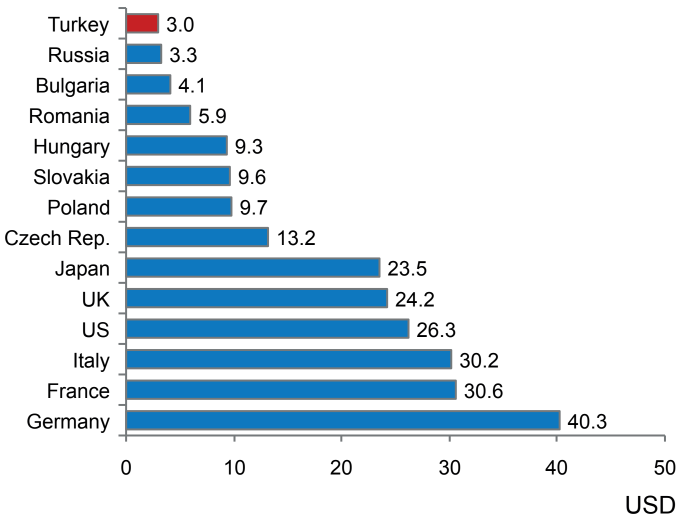
Directors @ Cannes, Berlin, Rome

K. Dervis, Former Head of United Nations Development Program

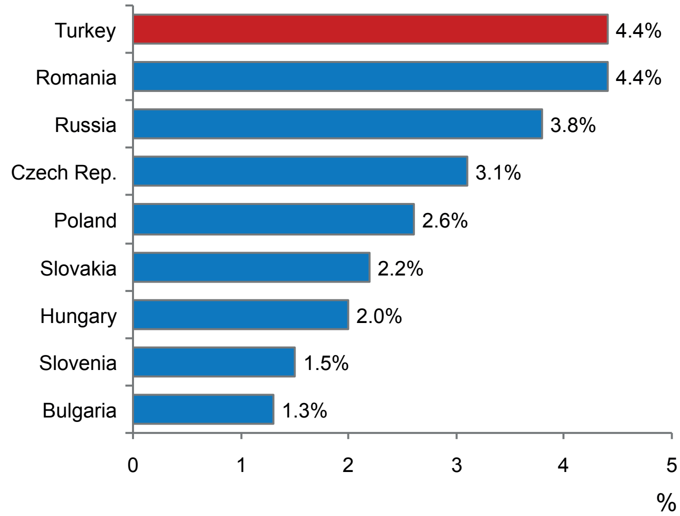
World Basketball, 2nd, Men & Women

Labor force is cheaper within CEE / EU and more productive (1)

Labor Cost Per Hour (2009)

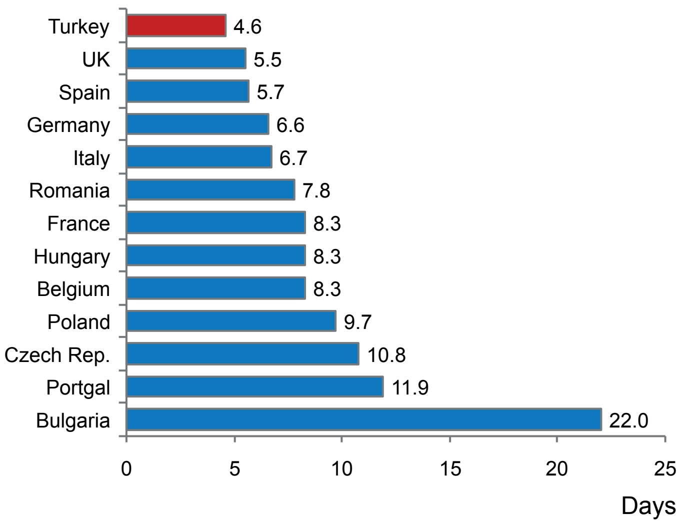


Labor Productivity Growth (Annual average 2002-09)

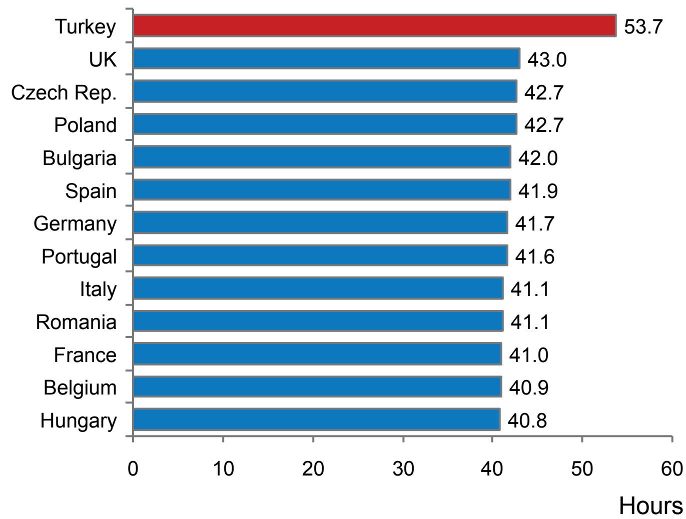


Labor force is cheaper within CEE / EU and more productive (2)

Annual Average Number of Sick Days per Employee in Europe (2008)

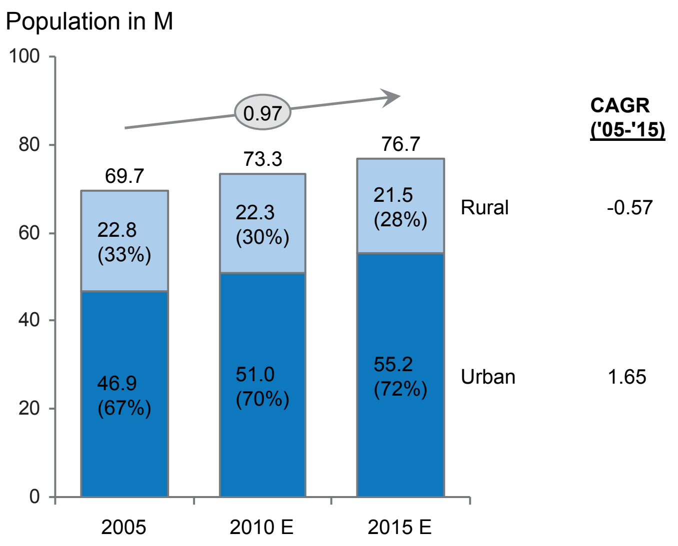


Hours Worked per Week of Full-Time Employment Annual Average (2008)

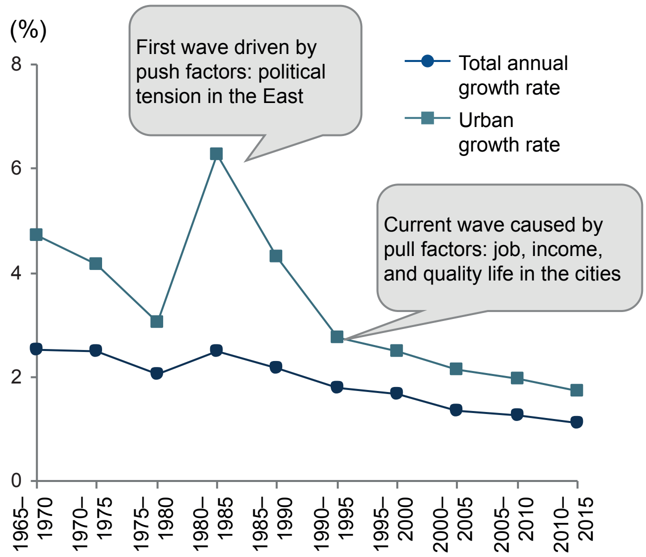


Turkey is already an urbanized country

Urban accounts for 70% of total population



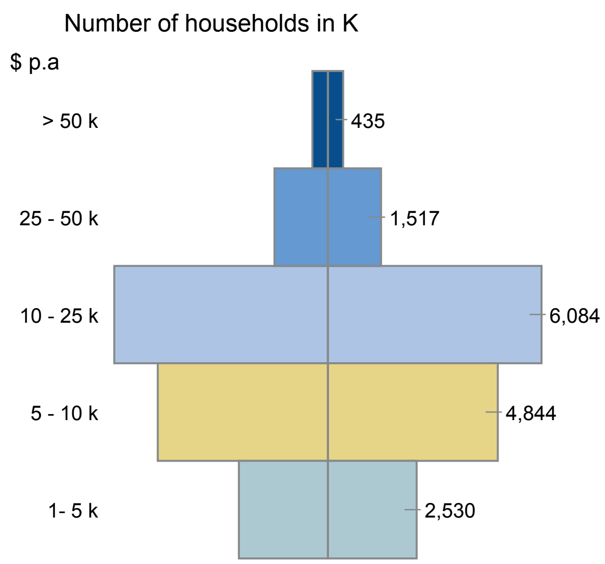
Big urbanization wave occurred in the past



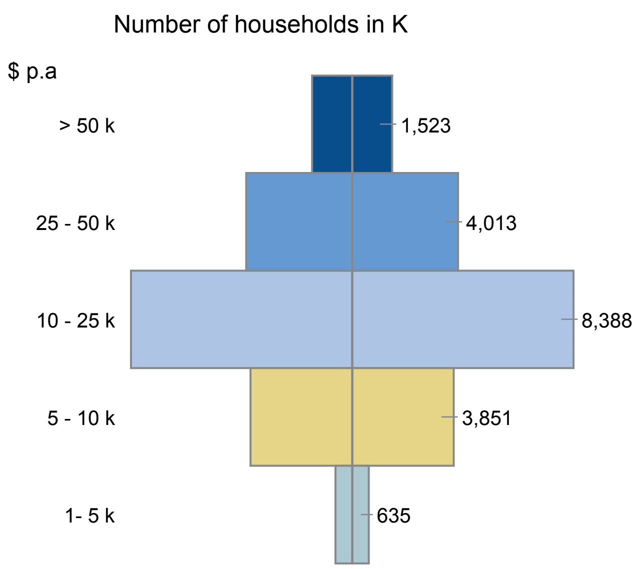
Source: Turkey Statistics Institute, desk research, BCG analysis

Urbanization raises number of mid-classes and lifts people out of poverty

Household income distribution in 2005



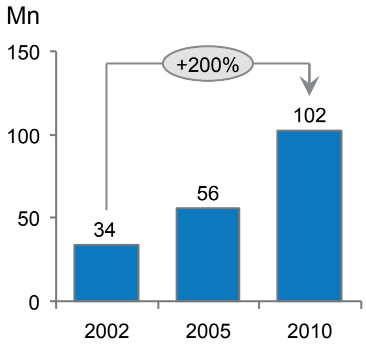
Household income distribution in 2015



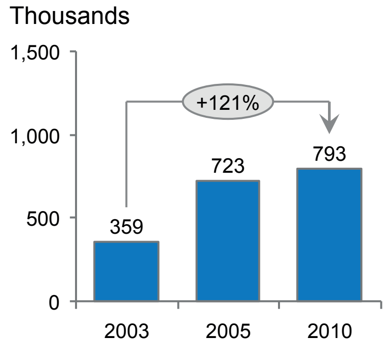
Source: EIU data, BCG analysis

Emergence of the Turkish middle-class observed in many key dimensions : "Consumption"

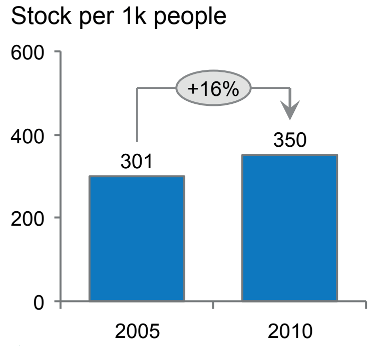
Airline Passengers



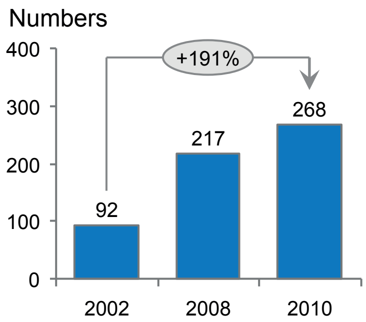
Automotive Sales



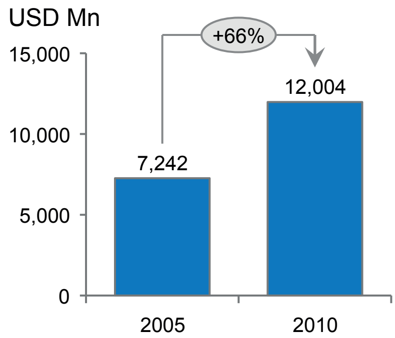
TV Sales



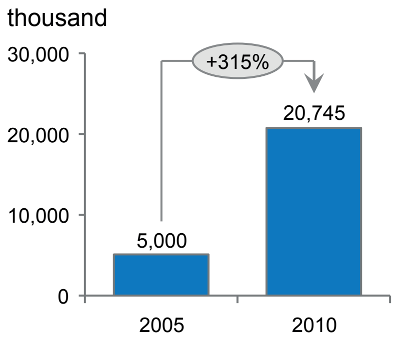
Shopping Malls



Electrical Appliances Demand



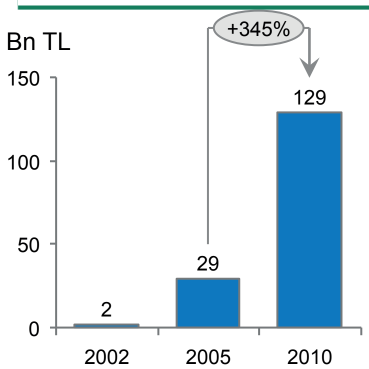
PC Demand



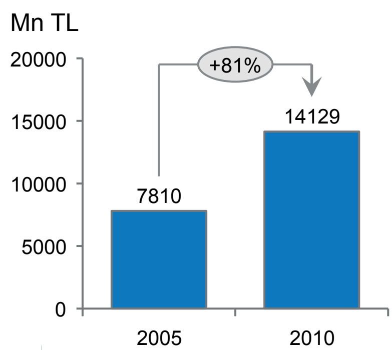
Source: TUIK, DHMI, ODD, Economist Intelligence Unit, AYD,

Emergence of the Turkish middle-class observed in many key dimensions : "Financial"

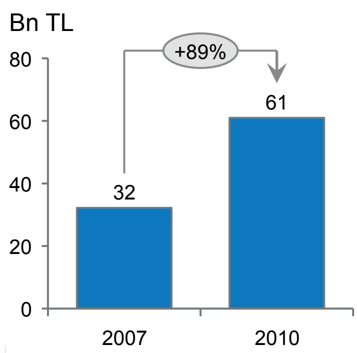
Consumer Loans



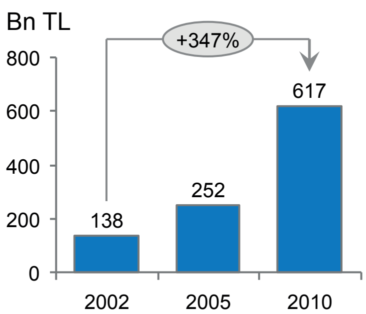
Insurance Premiums



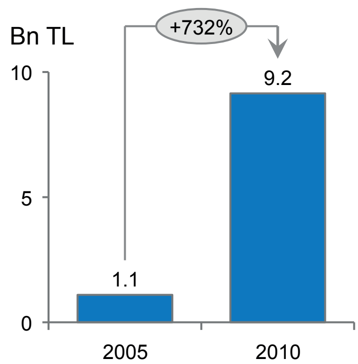
Mortgage Loans



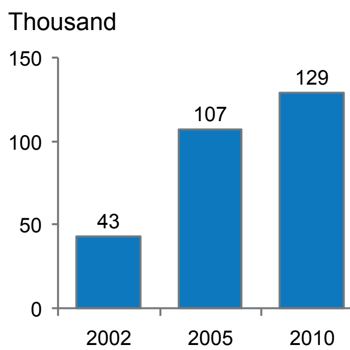
Deposit Accounts



Private Pensions



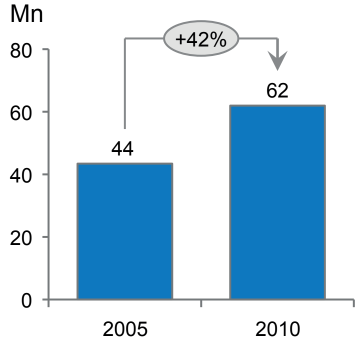
Housing Permits



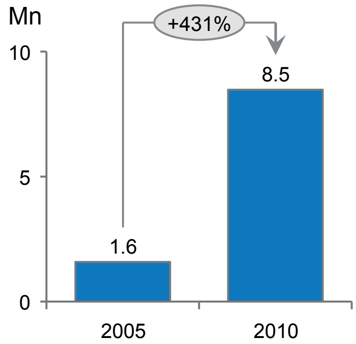
Source: BDDK, TSRSB, TBB, EGM, ISPAT, TUIK

Emergence of the Turkish middle-class observed in many key dimensions : "Telecom, Media, Technology"

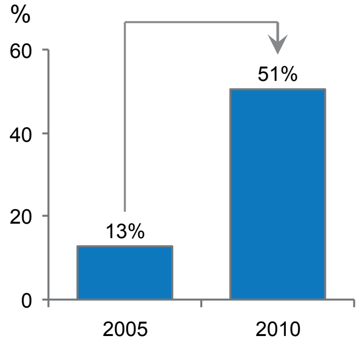
Mobile Subscribers



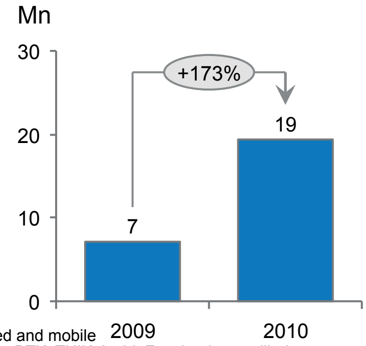
Broadband[1] Subscribers



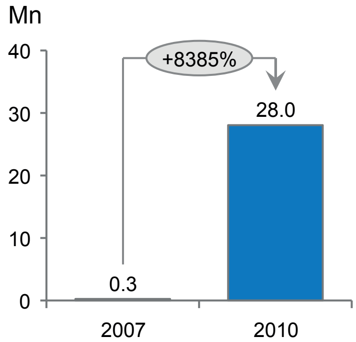
Computers in household



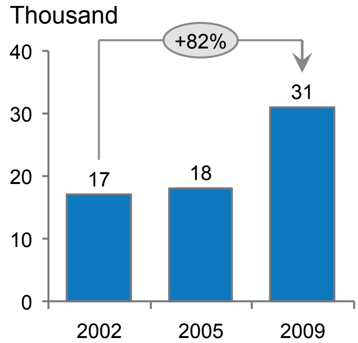
3G Users



Facebook Users



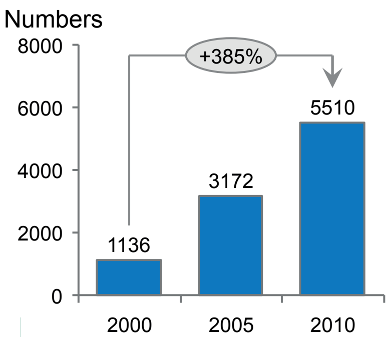
Movie tickets sold



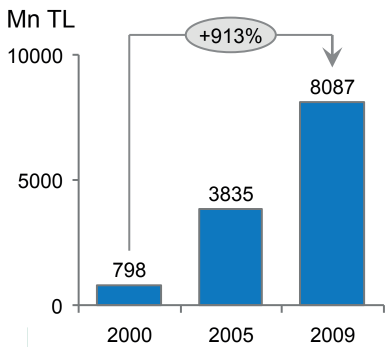
1. Fixed and mobile
Source: BTK, TUIK, InsideFacebook, socailbakers.com

Emergence of the Turkish middle-class observed in many key dimensions : "Value added output"

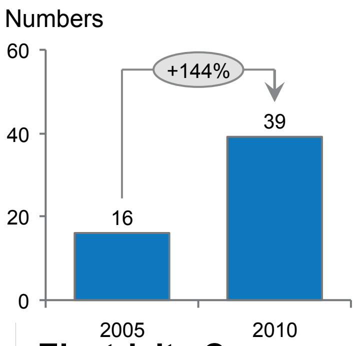
Patents & Registrations



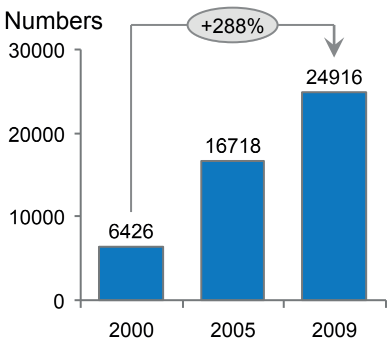
R&D



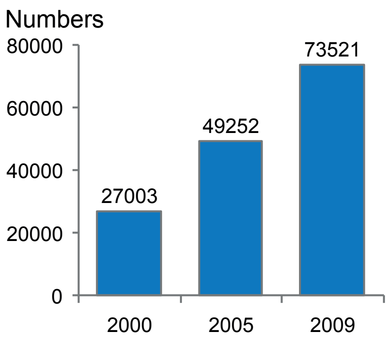
Technoparks



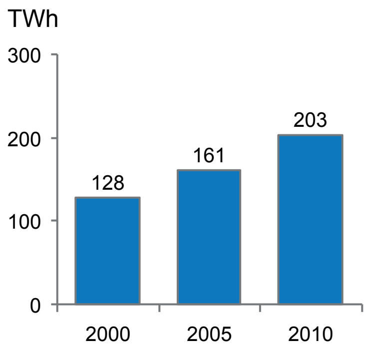
Scientific Publications



R&D Workforce (FQE[1])



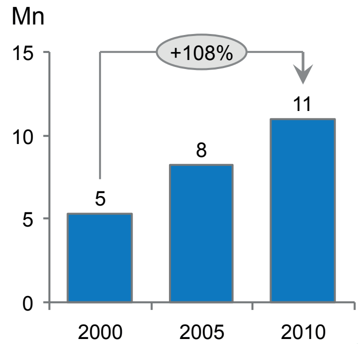
Electricity Consumption



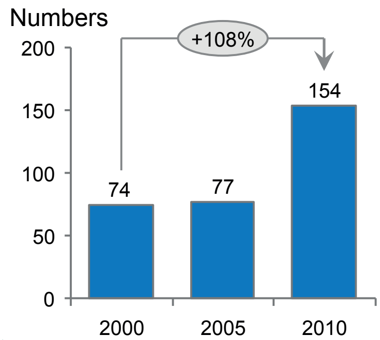
1. Full time equivalent
Source:TPE, TUIK, ISPAT, A.A, TEİAŞ

Emergence of the Turkish middle-class observed in many key dimensions : "Education, Tourism, Press"

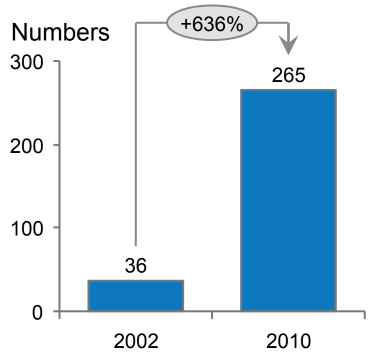
Citizens Going Abroad



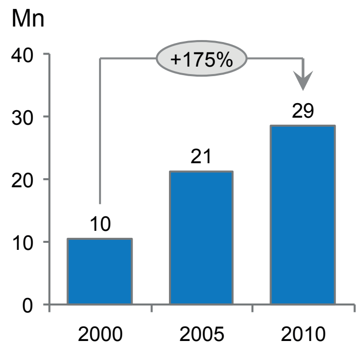
Universities



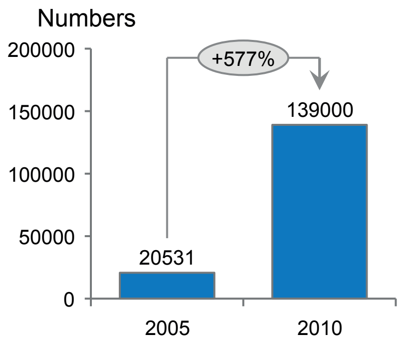
Foreign Journalists



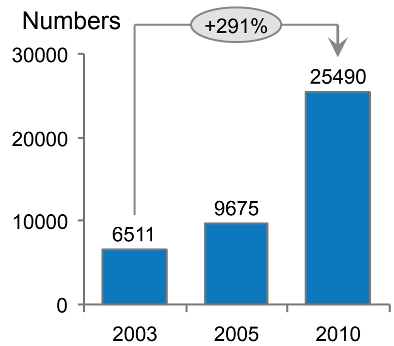
Tourists Arrivals



Turkish Students Abroad



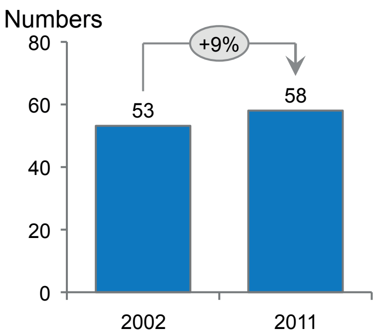
Foreign-owned Companies



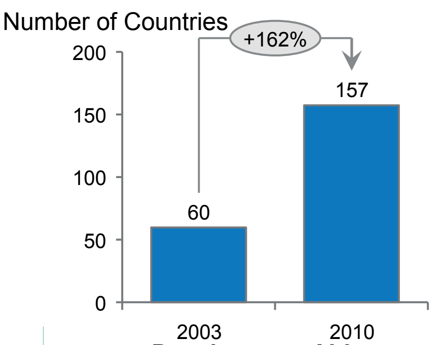
Source: BDK, TURSAB, MEB, YURTKUR, Undersecretariat of Treasury

Emergence of the Turkish middle-class observed in many key dimensions : "Increasing globality"

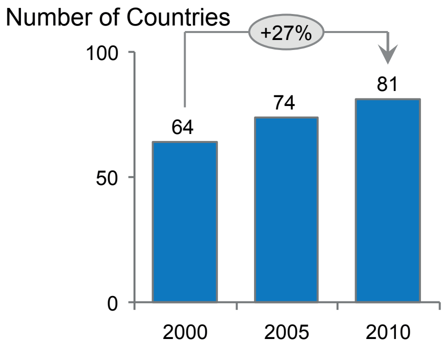
Visa-free Countries



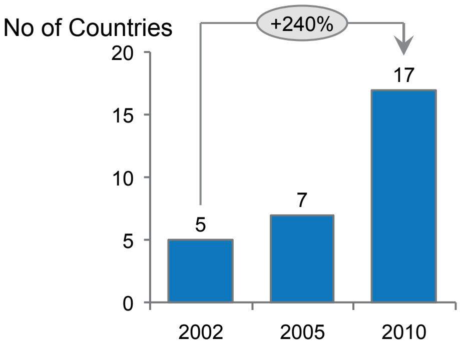
International Flight Network



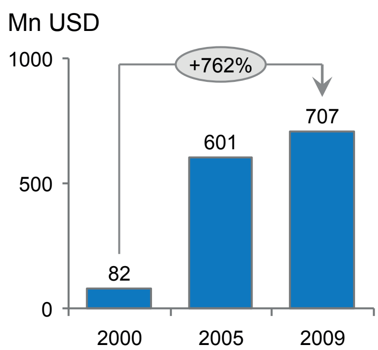
Bileteral Investment Treaties



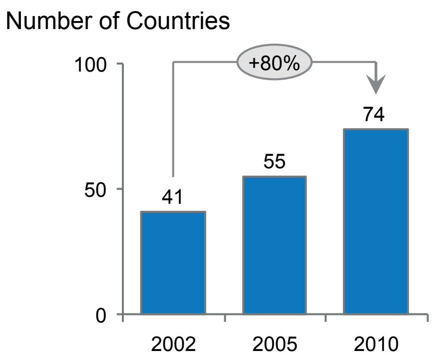
Free Trade Agreements



Development Aids given by Turkey



Double Taxation Prevention Treaties



Source: Ministry of Foreign Affairs, CIHAN H.A., TIKA, Undersecretariat of Treasury, Undersecretariat of The Prime Ministry for Foreign Trade(DTM) , SHGM

Turkey has strategic advantages in its geo-political positioning; plus improving technological and social standing

Key highlights

1. Turkey is strategically important acting as a **natural link and bridge** to markets in Caucasia, Central Asia, Balkan states and the Gulf

2. Turkey's new **mid-term economic plan** seems feasible and ensured fast(er) recovery in the global crisis times

3. Turkey is a **key participant** of the global economical and political scene

4. Turkey is becoming **technologically** important globally

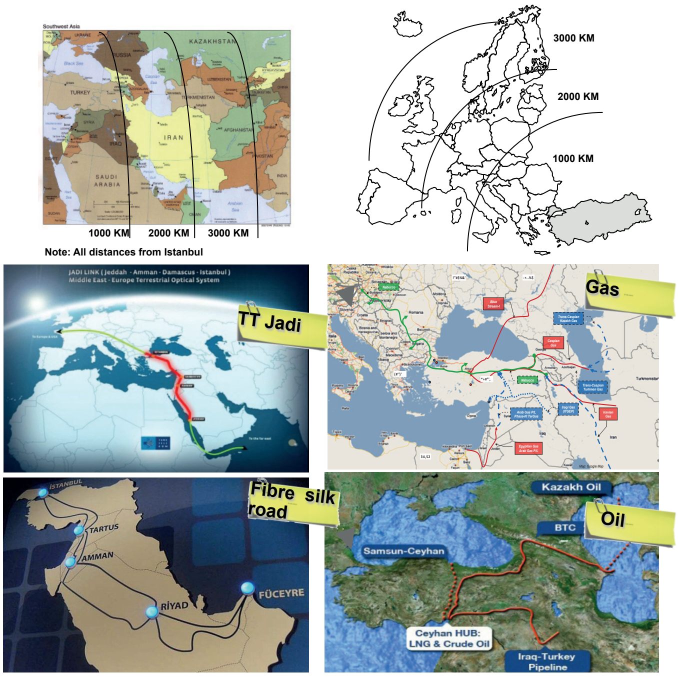
5. Turkey is becoming **socially** important globally

Turkey is strategically important

A natural link to markets in Caucasia, Central Asia, Balkan states and the Gulf

Proximity and Corridors

TURKEY IS STRATEGICALLY LOCATED IN BETWEEN EU AND ASIA WHILE ENJOYING PROXIMITY TO NEWLY EMERGING MARKETS



Strategic Importance

- Extremely close to CIS, ME and Africa – newly emerging markets:
  - Access of the West to Central Asian countries
  - Offers easy access (proximity) to all such nations without the risk
  - Ensures flexibility in all fronts
  - Strong cultural ties especially with the CIS region
- Turkey is a gateway to energy resources such as gas and oil pipelines in the region
- Turkey, with Russia, is the leader in Black Sea Economic Corporation
- Proximity to EU now better with the customs union:
  - Trade-wise Turkey is integrated into the EU
  - Full EU-integration potential is a reality for Turkey

Note: JADI name derives from the initials of the following cities; Jeddah (Saudi Arabia), Amman (Jordan), Damascus (Syria) and Istanbul (Turkey); it is an integrated multi-pass fiber optic network. The silk road is also similar covering Fujairah (United Arab Emirates) going over Riyadh (Saudi Arabia), Amman (Jordan) and Tarsus (Syria) to reach Istanbul. For the first time in Middle East, covering the entire Gulf area and having a total distance of 7750 km with its spare structure, the RCN Project will be the longest terrestrial fiber optic infrastructure in the region between Fujairah and the West
Source: BCG-Analysis, ICT news Eurasia, TT

Turkey's new mid-term economic plan is feasible, and ensured fast(er) recovery from the global crisis

Mid Term Economic Plan Summary

Main objective is to reach a rapid and sustainable growth period
- Expected 2011 GDP growth is 4-5% (vs. -6% in 2009)

Realignment in public sector investments
- Priority to infrastructure investments in education, health, technological research, transportation and communication
- Bringing down inter-regional development disparities via social infrastructure projects

Reduction in public sector deficit and increase in debt management transparency
- 2010 budget deficit decreased to 3.6% of GDP vs. 5.1% in 2009
- 2011 Jan- Mar budget deficit decreased to 4.1% of GDP vs. 11.3% in Jan-Mar 2010

Strengthened public revenue channels
- Encouragement of individual and institutional savings
- Stability in audit and implementation of tax administration; renewal of the income tax law in 2010
- Reduction in informal economy

Re-Organization in and Privatization of State Economic Enterprises (SEEs)
- Complete public withdrawal from electricity distribution and sugar production
- Decrease in public share in telecommunication and port operation
- Introduction of new corporate governance for SEEs
- Initial studies for partial public offerings for Ziraat Bank

Source: BCG-Analysis; State Planning Organization; Morgan Stanley Economic Outlook Report;Economist Intelligence Unit, May 2011; Deloitte Economic Outlook Report (3Q 2009)

Turkey is a key participant of the global economical and political scene

Turkey is a key member of leading international Organizations

Turkey was a founding member of the United Nations in 1945
- Nine UN agencies are officially represented in Turkey: FAO, ILO, UNDP, UNFPA, UNHCR, UNIC, UNICEF, UNIDO and WFP. The IOM has an office in Ankara and UNODC and WHO also have liaison offices in Turkey
- Turkey has a permanent mission at the UN
- Turkish nationals played key roles at the UN – e.g. Kemal Dervis was the 3rd highest ranking official at the UN as the administrator of UNDP
- Member of UN Security Council during 2009-2010

NATO member since 1952
- Ex- Turkish Minister Hikmet Çetin was the NATO Senior Civilian Representative in Afghanistan during 2003-2006

One of the Founding Members of OEEC[1] in 1948, which became OECD[2] in 1961

Organization of the Islamic Conference (OIC) member 1969
- Secretary General of OIC is Ekmeleddin Ihsanoglu, since 2005

Member of G-20

Member of EU custom-union, since 1996

Founding member of BSEC[3] , since 1992

Member of World Trade Organization

Active in key organizations like Worldbank, IFC, Islamic Development Bank,...
- Worlbank and IFC utilize Turkey as a hub to serve broader regions

ALLIANCE OF CIVILIZATIONS

The initiative seeks to galvanize international action against extremism through the forging of international, intercultural and interreligious dialogue and cooperation since 2006. Its co-sponsored by Turkey and Spain.

1. **Organisation for European Economic Co-operation** 2. **Organisation for Economic Co-operation and Development** 3. **Blacksea Economic Cooperation Council**
Source: BCG-Analysis; NATO,OICiOECD,G20, BSEC, WTO, UN websites

Turkey is ~~strategically~~ technologically important

Volitan, Int'l Desgin Award 2007

NYC Taxi*, by KARSAN**

* Finalist
** a DEIK member.

JSF Member & Parts Producer by TAI* and Kale*

TAI

Kale Aero

* DEIK members.

Subway by DURMAZLAR

Pars* by FNSS

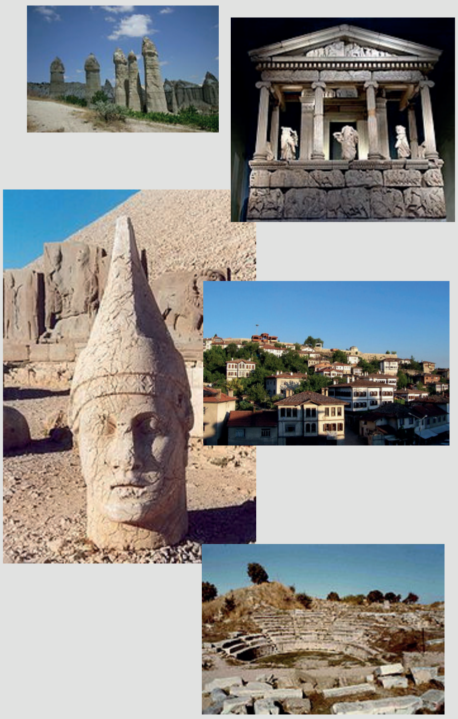
* a DEIK member.

Altay... National Tank* by Otokar

* a DEIK member.

Turkey is ~~strategically~~ socially important

Unesco World Cultural Heritage (9)



Sports Events

ERZURUM2011 winteruniversiade

turkiyef1.com

FIBA WORLD CHAMPIONSHIP 2010 Turkey

European Capital of Culture 2010

Istanbul 2010
AVRUPA KÜLTÜR BAŞKENTİ
EUROPEAN CAPITAL OF CULTURE

320+ museums and 131 historic sites

City museums
- e.g. Edirne Museum, Kars Museum, Niğde Museum

Ethnography museums
- e.g. Balıkesir Sıdıka Erke Ethnography Museum, Konya Ethnography Museum

Islamic art museums
- e.g. Erzincan-Yakutiye Turkish & Islamic Art Museum, Istanbul Turkish & Islamic Art Museum

Science museums
- e.g. Islamic Science & Technology History Museum, METU Museum

Monothematic industry museums
- e.g. Düzce Sarsılmaz Museum, İstanbul PTT Museum

Pluri-thematic industry museums
- e.g. Rahmi Koç Museum, Istanbul Marine Museum (History & Art center)

Monothematic art museums
- e.g. Pera Museum

Pluri-thematic art museums
- e.g. Istanbul Modern, Santral Istanbul Energy & Modern Arts Museum

Turkey is ~~strategically~~ unique given Istanbul

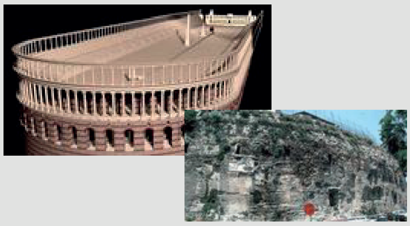
World Capital

Capital to 3 giant empires – Roman, Byzantine, Ottoman

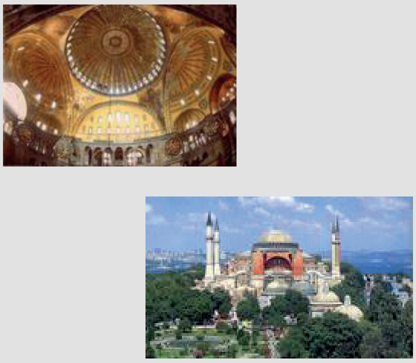
129 emperors in 1600 years

A cross-road : Only city linking continents by car

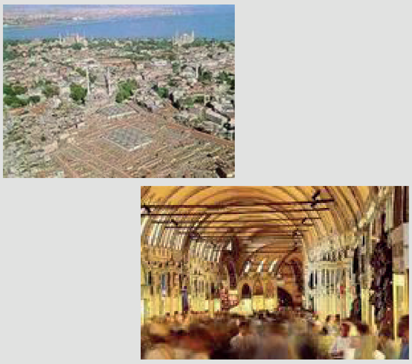
Worlds Largest Stadium (Hippodrome of Constantinople)



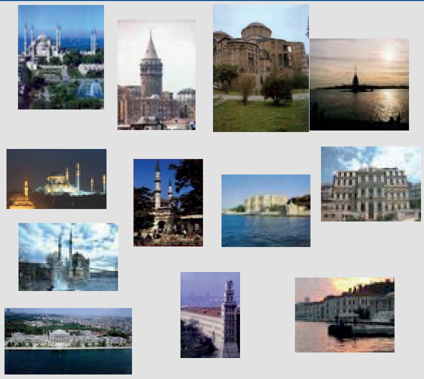
Worlds Largest Church btw 537 and 1629



Worlds Oldest Shopping Mall



Cultural Accumulation (Old and New)



Turkey is ~~strategically~~ construction wise important

Turkey ranks 2nd after China with 33 companies according to “ENR Int’l 225 list”

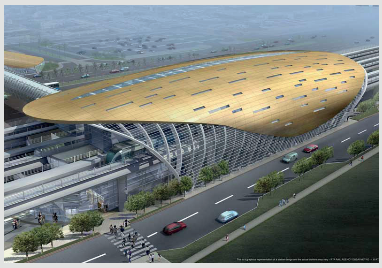
Museum of Islamic Arts*, Qatar

* Constructed by BAYTUR - a DEIK member.

Tyngah Power Plant, Ireland

* Constructed by GAMA - a DEIK member.

Dubai Metro, UAE



* Constructed by YAPI MERKEZI- a DEIK member.

Tunisia Airport, Tunisia

* Constructed by TAV - a DEIK member.

Blue City, Oman

* Constructed by ENKA - a DEIK member.

Ford & Hyundia Factories, Russia

* Constructed by RENAISSANCE - a DEIK member.

Turkey is ~~strategically~~ regional business wise important

BCG Global Challenger List Entrants

Koç
Sabancı Holding
Şişecam
Vestel

Turkish Airlines

Acquisitions of Turkish Co.'s

Godiva Chocolatier
BH Airlines – The Airline of Bosnia and Herzegovina
Grundig
BeST
RPC – Razi Petrochemical Co.
CMA CGM
Defy
Invitel International
Cacharel Paris
Finlux
Fincuoghi
Villeroy & Boch 1748

Note: RPC by Gubretas; BH Airlines by Turkish Airlines, BeST by Turkcell, Godiva by Ulker, CMA CGM by Yildirim Holding, Invitel Intl by Turk Telekom, Cacharel by Aydinli Group, Finlux by Vestel, Grundig by Koc Group, Villeroy & Boch by Vitra Source: Bloomberg, Reuters, Financial Times, Haberturk, Businessweek,

Privatizations and private company sales expected to fuel the FDI inflow into Turkey in the short and medium terms

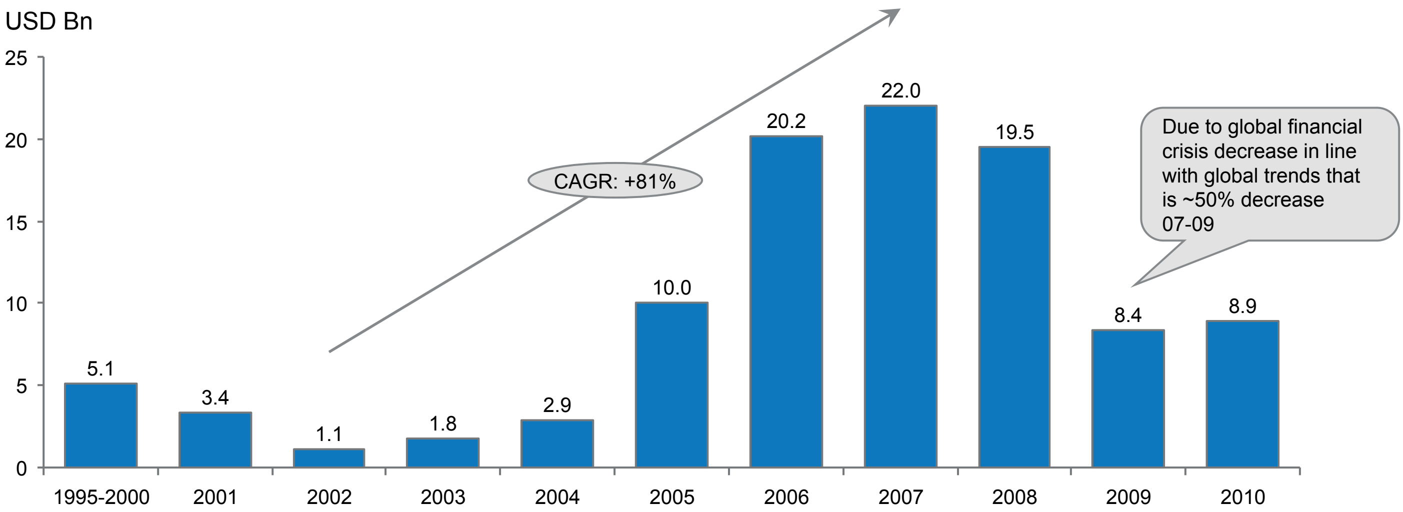
Key highlights

1. **FDI stock** in Turkey started to grow significantly, largely due to increased political stability
2. Pace of **privatizations** increased since 2005, bringing the historic total to $42B
3. Important privatizations expected to generate around **$50B** are anticipated in 2011 and beyond
4. Other private company **block sales, IPOs and SPOs** are also expected in the near future
5. Heavy interest from **MNCs**

FDI stock in Turkey started to grow significantly lately

Despite global crisis, thanks to political stability

FDI Inflows[1] to Turkey



1990-2000:

Political instability with 9 coalition governments in 10 years. $772 M/yr FDI attracted but full potential not realized

2001:

Reform Program based on review by World Bank Financial Adv. Service

2003- present:

Single Party (AKP) elected

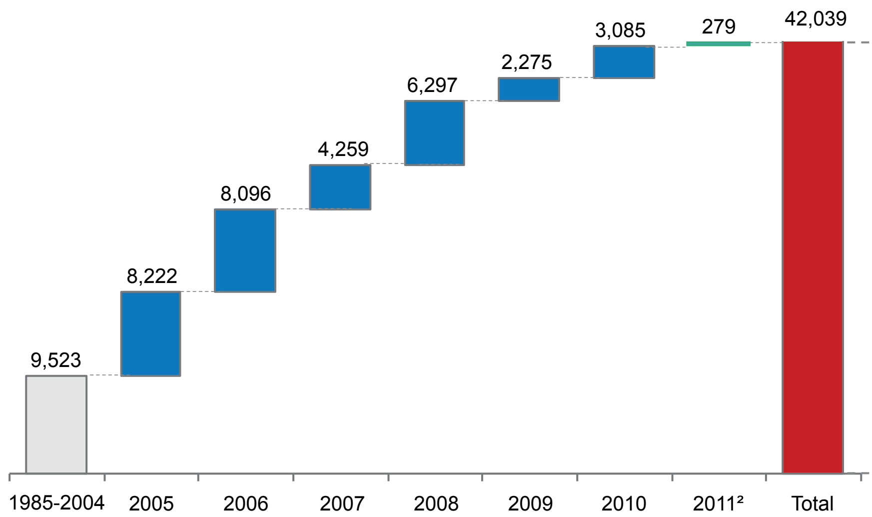
Law 4875 enacted: Eliminates limits in capital requirements for new FDI projects, grants full convertibility in transferring capital and earnings

1. Including real estate and loans FDI inflow

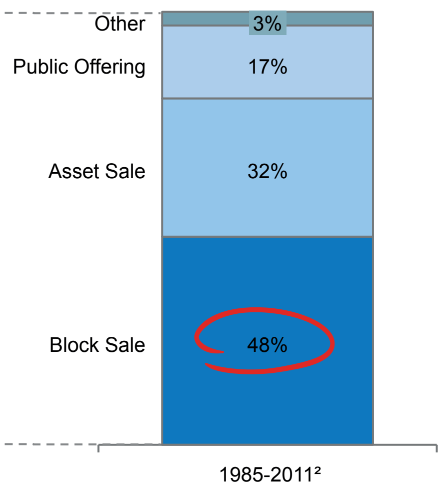
Source: Republic of Turkey Undersecretary of Treasury

Privatization totaled to $42B

Privatization evolution over years (US$ M)



Type of sales



50% of privatization done via block sales, creating opportunity for institutional & strategic investors

1. Uncompleted asset sales , ISE sales

2. January-May

Source: Turkey Privatization Administration

Top 10 privatization transactions generated US$30 B

Top 10 privatization by size

Target	Sector	Privatization type	Block sale acquirer	Total share privatized[1]	Sale (Mn $)
Turk Telekom	Telecom	Block sale + Public offering	OGER Telecom	60%	8,461
Tupraş	Petroleum Refinery	Block sale + Public offering	Koc Holding	83%	5,251
Tedaş	Electricity Distribution	Asset sale	Various investors		4,198
Erdemir	Iron & steel	Block sale + Public offering	OYAK	49%	2,823
Tekel	Alcohol & Tobacco	Asset sale	Various investors		2,478
Petkim	Petrochemicals	Block sale + Public offering	Sorcas&Turcas	94%	2,464
Petrol Ofisi	Petroleum Marketing	Block sale + Public offering	İşbank – Doğan	68%	1,443
Halkbank	Banking	Public Offering		25%	1,839
Isbank	Banking	Public Offering		12%	633
Sumer Holding	Textile	Asset sales	Various investors		456
TOTAL					**30,046**

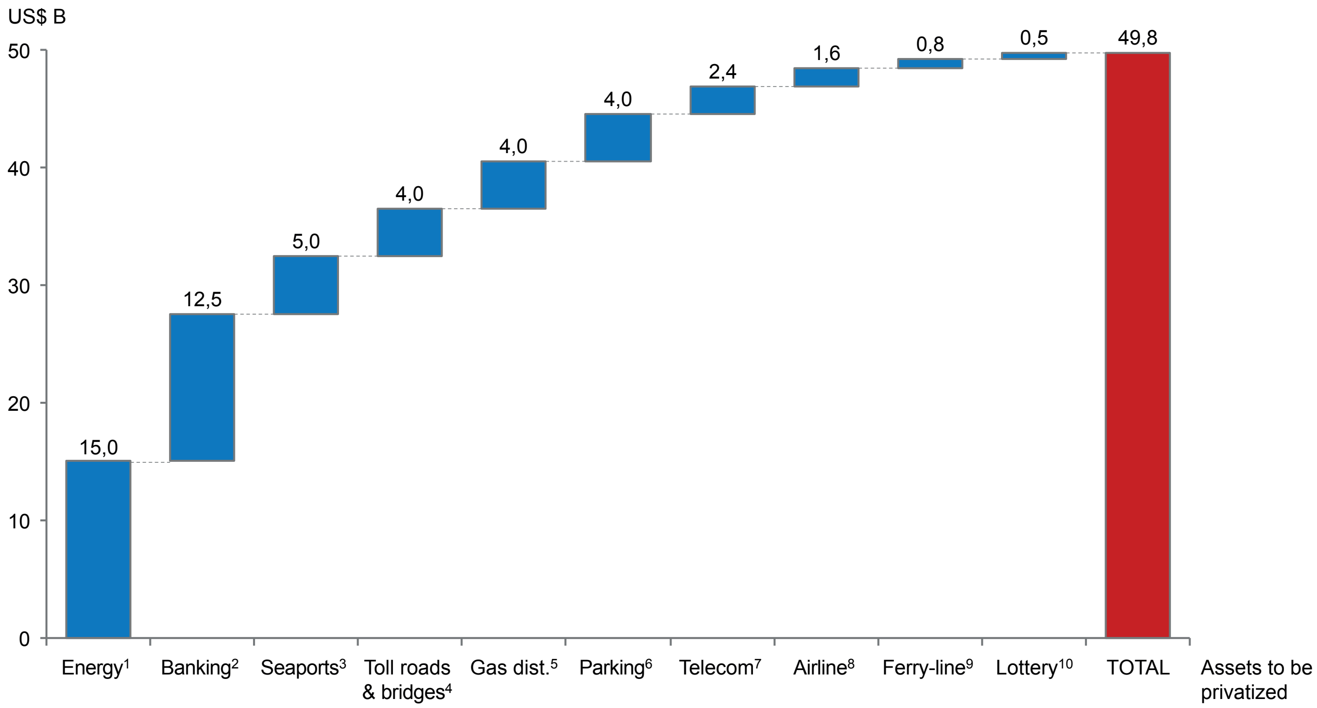
1. Total shares privatized by block sale and public offering
Source: Turkey Privatization Administration

Significant privatization opportunities marked in Turkey's agenda for 2011 and beyond

	Target assets/companies	Sales proceeds	Description	Timeplan	Responsible authority
Energy	• EUAS, 16 GW installed power generation capacity	US$15 B	• 4 priority thermal PPs & 9 portfolios of hydro & thermal PPs	TBD	PA
	• IGDAS, Istanbul Gas Dist.	US$4 B	• 4.2mn customers	2011	Istanbul Muni
Banking	• Halkbank	US$7.5 B	• 25% via SPO, 50% via block sale	2011&TBD	PA
	• Ziraat Bankasi	US$5 B	• 25% via IPO	TBD	PA
Transportation	• Toll roads & bridges	US$4 B	• 2,000 km of toll roads and bridges	2011	PA
	• Ports	US$5 B	• 3 ports (Galata, İzmir, Derince)	2011	PA
	• Sea ferry (IDO)	US$0.8 B	• Istanbul ferry line	2011	Istanbul Muni.
	• Airline (Turkish Airlines)	US$1.6 B	• 49% via SPO and/or block sale	2011	PA
	• Parking (ISPARK)	US$4 B	• Istanbul parking rights	2011	Istanbul Muni.
Telecom	• Turk Telekom	US$2.4 B	• 15% to be sold via SPO	2011	PA
Lottery	• Milli Piyango (National lottery)	US$0.5 B	• 10 year license	TBD	PA

Source: Turkey Privatization Administration, BCG Analysis, Investment bank reports, press

Proceeds of ~US$50 B expected from these privatizations in 2011-2013 period



1. Government expects US$15 B 2. Estimate based on current market capitalization 3.Price tag from cancelled past tenders 4.Government expects US$4 B 5.Investment bank estimates 6. Press 7. Estimate based on market capitalisation 8. Estimate based on market capitalization 9. Investment bank estimates 10. Investment bank estimates

Source: BCG analysis, press, investment bank esitmates

Backup

Sale of toll roads & bridges to generate large proceeds

2,000 km of toll roads with high traffic bridges for 25 years

Key highlights

- Two bridges in Bosporus with around half million passenger daily
- Scope including ~2,000 km of highways
  - Edirne-Ankara 836km
  - Izmir-Cesme 89km
  - Izmir-Aydin 173km
  - Pozanti-Mersin 222km
  - Toprakkale-Iskenderun 495km
- Concession rights of highways and bridges including service areas for 25 years

Source: TSKB

In addition many other private company block sales, IPOs and SPOs are on the way...

Large private company sales (e.g.)	DYH Doğan Yayın Holding; DenizEmeklilik
Upcoming IPOs and SPOs (e.g.)	Turkish Airlines; EnerjiSA; TemSA; AvivaSA Emeklilik ve Hayat; TeknoSA; Doğuş Group; Akfen; Saray; Kiler Kazançlı Alışveriş

...drawing remarkable local and international attention

Source: BCG; Company Websites; Press

Several large-cap foreign companies have enjoyed strong performances in Turkey

Key highlights

1. Two main types of foreign investors are present in Turkey: Private Equities and Strategic Investors
2. Various successful examples include the Turkey operations of:
   - **General Electric**
   - **TPG**
   - **Citi**
   - **Ford**
   - **Coca-Cola**
   - **Procter & Gamble**

Seductiveness of these opportunities only double when combined with high-profits captured by former investors

Private Equity Examples	Strategic Investors Examples
citi, TPG, ABRAAJ CAPITAL أبــراج كـابيتال – INVESTING IN FORESIGHT	Ford, GE, P&G, Coca-Cola, citi

GE's Investment in Garanti grew at CAGR of 29% for 5 years excluding dividend gains

	2005	2007	2008	2010
Transaction	GE buys 25.5% stake from Dogus	Garanti buys back 4.65% stake from GE	Garanti buys back 370 founder shares	BBVA buys 24.9% stake (18.6 p.p. from GE)
Amount	Pays $1.8 Bn	Pays $674 Mn	Pays $1.1 Bn	Pays $5.8 Bn
Implied Equity Value	$6.6 Bn	$14.5 Bn		$23.5 Bn

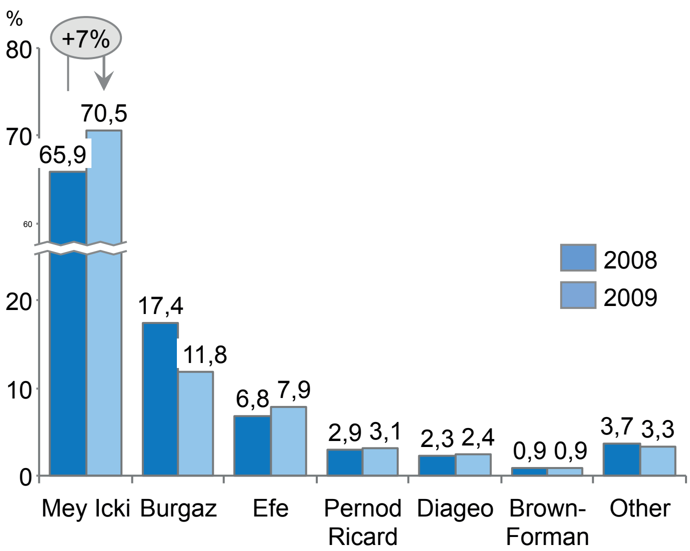
CAGR for Implied equity value is 29%!

Source: Garanti Bank investor presentation, press reports, BCG analysis

TPG bought Mey for $810Mn and sold for $2.1Bn after 5 years

TPG

% Market Share in Volume



Key Facts

- Mey has ~80% share in domestic raki market with access to 50k retail outlets
- In 2004, Mey Icki JV[1] bought Tekel's alcoholic beverages division for $292Mn in 2004
- In 2006, TPG bought %90 of Mey for $810 Mn
- In 2008, Mey sold Tekel Birası brand to Efes for $3.8Mn.
- In 2011, Diageo agreed to buy Mey İcki for $2.1 Bn at x9.9 of Mey's 2010 EBITDA

Mey's value grew at 21% CAGR under TPG control[2]

1. JV consortium was composed of Nurol-Limak-Özaltın-Tutsab 2. Based on buy and sale prices of TPG.
Source: Euromonitor, Company websites, Bloomberg, Financial Times, Wall Street Journal, Bloomberg HT, Hurriyet Economy, BCG Analysis

Citi's 20% stake in Akbank grew from $3.1Bn to $4.6Bn

Dividends received were ~USD 1.1Bn

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	2007	2008	2009	2010	2011
Transaction	Citi 20% stake from Akbank[1]				Still holds the shares
Amount	Paid USD 3.1Bn				Stake value became USD 4.6Bn
Share from dividends	USD 402 Mn	USD 188Mn	USD 250Mn	USD 285Mn	Dividends received totalled to USD 1.1Bn
Market Capitalization	USD 15.5 Bn[2]				USD 22.9 Bn[3]

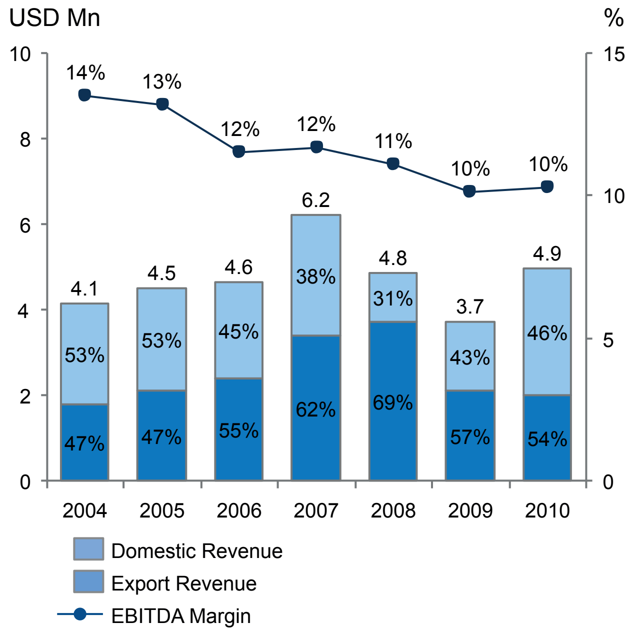
Citi's investment in Akbank grew at CAGR 15.4%, while its Return on Equity in US was -0.7% on average

1. Transaction was completed on January 9th 2007 2. Implied value 3. Market capitalization as of April, 2011
Source: Akbank comany report, IMKB, Citigroup Inc annual reports, Bloomberg

Ford-Otosan JV uses scale advantage of TR to lessen costs

Ford increases ownership to 41% progressively, making TR an export center

Company Performance



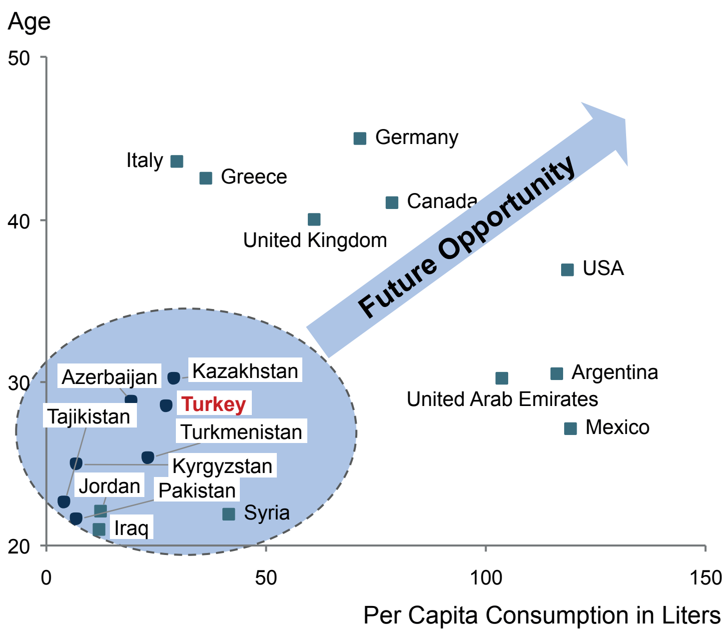
Key Facts

- Since 1959, Ford increases ownership progressively to 41%[1]
- Kocaeli Plant, with 320,000 units of annual production capacity, is the Best Ford Brand Assembly Plant in Europe since 2002[2] .
- Inonu Plant is the Best Powertrain Plant in the World since 2005[2] .
- Large-scale exports diversify domestic risks, while lowered costs give competitive advantage.
- $1.82 Bn in dividend payment during last 6 years[3]
- 6 consecutive years of leadership btw 2003-2008 in sales from production

1. While Koç owns 41% , 18% is publicly owned . 2. According to Ford Production system ratings 3. From 2005 to 2010. 4. Renault breaks leadership streak in 2010.
Source: Ford Investor presentation, Thomas Reuters, Financial Times, Automotive Manufacturer's Association BCG Analysis

The Coca-Cola Company has been enjoying market leadership in fast growing market

Median Age vs. Consumption/Capita[1]



Key Facts

- **Long Presence:** since 1988. Currently, 20% stake belongs to TCCC, %50 Anadolu Efes.
- **Scale:** 6th largest bottler in TCCC[2] system among .
- **Growth:** Sales volume grew at CAGR 16% btw 2004-2006.
- **Leadership:** Market leader with 69% share.
- **Exports:** Share of international operations in total sales increased to 26% in 2010 from 17% in 2005.
- **Management:** CCI also controls part of Middle-East*, Central Asia* and Pakistan operations.
- **CEO:** Muhtar Kent, a Turkish, became the CEO of TCCC.

1. Carbonated drink consumption per capita 2. The Coca-Cola Company 3. Coca-Cola Icecek
* Azerbaijan, Kazakhstan, Krygyzstan, Turkmenistan, Tajikistan, Syria, Jordan and Iraq.
Source: Euromonitor , Worldbank, CIA World Factbook 2010, The Coca-Cola Company websites

For further questions

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