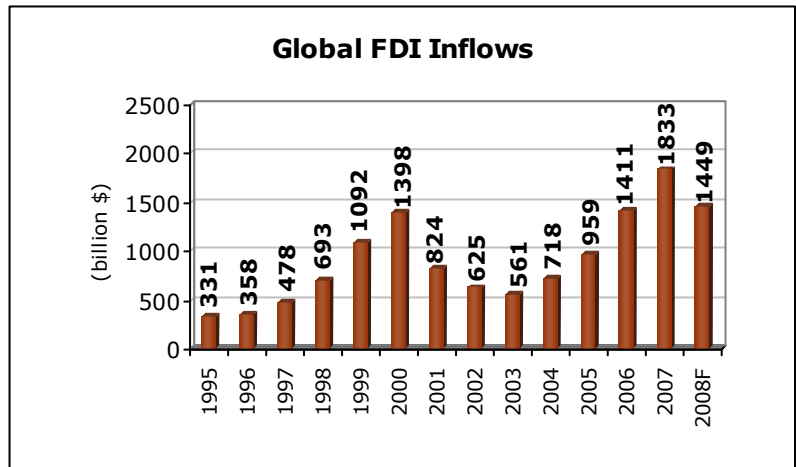


AN EVALUATION OF INTERNATIONAL DIRECT INVESTMENTS IN 2008 IN THE WORLD AND IN TURKEY

Global international direct investment flows are estimated to have fallen back to USD 1.4 trillion level in 2008, down by 21 percent compared to record level of USD 1.8 trillion in 2007. According to the preliminary data released by UNCTAD, while approximately USD 840 billion of this total have flown into developed countries, the rest was shared by developing countries and transition economies (South-East Europe and the CIS) (See Appendix I).



Source: UNCTAD

Early preliminary data reveal that USA retains its position, as it was in recent years, as the leading host country for FDI in 2008, with an FDI inflow of above USD 200 billion; followed by UK and France in 2nd and 3rd places, with FDI inflow figures above USD 100 billion. China, as in recent years remained to be the leading FDI destination among developing countries with an FDI inflow of over USD 90 billion in 2008 and Russia and Hong Kong (China) are expected to follow with USD 60 billion of inflows.

| FDI Inflows (Bn \$) | 2007 | 2008* | Change (%) (2007/2008) |
|---|--------|--------|---------------------------|
| Developed Countries | 1247.6 | 840.1 | -32.7 |
| Europe | 848.5 | 562.3 | -33.7 |
| EU | 804.3 | 557.4 | -30.7 |
| USA | 232.8 | 220 | -5.5 |
| Developing Countries | 499.7 | 517.7 | 3.6 |
| Africa | 53 | 61.9 | 16.8 |
| Latin America | 126.3 | 142.3 | 12.7 |
| Asia ve Oceania | 320.5 | 313.5 | -2.2 |
| Transition Economies (South-East Europe and the CIS) | 85.9 | 91.3 | 6.3 |
| World – Total | 1833.3 | 1449.1 | -21.0 |

Source: UNCTAD *preliminary data

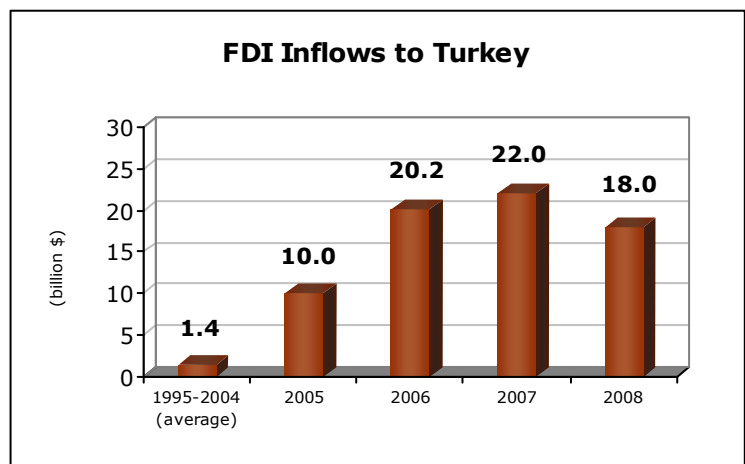
While FDI inflows to **developed countries** decreased by 33 percent in 2008, there was an increase of 3.6 percent in FDI inflows to **developing countries**. **Regionally**, whereas the decrease has stayed at 5 percent level in the USA, EU countries are forecasted to have experienced 30 percent fall. Being the leading region among developing countries, inflows to South-East Asia seem to have increased, though at a limited rate of 3 percent. While the inflows to West Asia region, which also includes Turkey, fell by 21 percent, parallel to the global figure; Turkey is expected to be the leading country in its region in terms of FDI inflows.

According to the same preliminary data, international **merger and acquisition (M&A) transactions** are estimated to have fallen by 28 percent in 2008. Although indications of a global financial crisis had started to surface during the second half of 2007, global M&As had nevertheless reached a record high level in 2007 with USD 4.5 trillion. Cross-border M&As in the meantime had accounted for USD 1.6 trillion of this amount. In 2008, as the impacts of the crisis deepened through the year, quite a number of agreements that were previously announced, were cancelled and the total value of M&A transactions dropped down to USD 3 trillion, which is the lowest level hit since 2005. It is estimated that USD 1.2 trillion of this figure was due to cross-border M&A transactions. While the USA and the UK were again the top countries where the cross-border M&A transactions took place, it is also observed that as developing countries benefited from an increase of 15 percent, developed countries were faced with a decrease of 33 percent.

The panorama depicted by global FDI flow predictions for **2009** are gloomier than the one actually experienced in 2008, and it is considered that the flows are likely to drop back to a level around USD 1 trillion, by a slump, which might be more acute than the one suffered in 2008 by 21 percent. In an environment where GDP growth forecasts for 2009 are being constantly revised negatively, it would be realistic to anticipate acute drops in capital inflows.

As for the trends in M&A transactions, the results of PwC's 12th Annual Global CEO Survey demonstrates that joint ventures and strategic cooperation alliances will be the methods to be preferred more often than M&As during the next three years - on account of different approaches to be adopted by companies when faced with a liquidity crunch.

FDI inflows to **Turkey**, which had reached to a level of USD 20 billion in 2006 and 2007, dropped - in line with global decline - to USD 18 billion in 2008 with an 18 percent decrease. In 2006, Turkey had ranked 17th among world's top 20 FDI destinations, but then had dropped to 23rd position in 2007. Correspondingly, as it had ranked in the 5th place among developing countries in 2006, it had stepped down to 9th position in 2007 in this category.



Source: Central Bank of Turkey *including real estate purchases

In 2008, USD 14.7 billion of the **total inward FDI flow amount of USD 18 billion to Turkey** represents net foreign capital inflows, and USD 2.9 billion of it represents the real estate purchases of foreigners.

In 2008, as **66 percent** of FDI inflows were directed to the **services sector; industrial sectors** meanwhile received a share of **34 percent** from these inflows. It is observed that

where inflows to industrial sectors remained almost unchanged, inflows to services sectors dropped by 30 percent.

An overall look at the FDI inflow figures of the last five years reveals that 78 percent of the inflows have been directed to the service sector and that the main branches of the industrial sector, which benefits from 22 percent of the total inflows, are; *food-beverages-tobacco*, *chemicals* and *basic metals and products* sub-sectors.

| The Sectoral Composition of FDI Inflows to Turkey | | | | | | | |
|--|---------------|---------------|---------------|----------------|---------------|------------------------|---------------------------|
| Sectors | 2004 | 2005 | 2006 | 2007 | 2008 | 2004-2008 Total | Share in Total (%) |
| (Million USD) | | | | | | | |
| Agriculture, forestry, fishing | 6 | 7 | 6 | 8 | 44 | 71 | 0.1 |
| Industry | 329 | 829 | 2,100 | 5,113 | 5,024 | 13,395 | 21.9 |
| Mining and quarrying | 73 | 40 | 122 | 336 | 168 | 739 | 1.2 |
| Manufacturing | 190 | 785 | 1,866 | 4,210 | 3,820 | 10,871 | 17.8 |
| <i>Food-beverage-tobacco</i> | 78 | 68 | 608 | 766 | 1,279 | 2,799 | 4.6 |
| <i>Chemicals</i> | 38 | 174 | 601 | 1,109 | 196 | 2,118 | 3.5 |
| <i>Basic Metals and Metal Products</i> | 6 | 139 | 158 | 515 | 1,124 | 1,942 | 3.2 |
| Electricity, gas and water supply | 66 | 4 | 112 | 567 | 1,036 | 1,785 | 2.9 |
| Services | 855 | 7,699 | 15,533 | 14,015 | 9,641 | 47,743 | 78.0 |
| Financial sector | 69 | 4,018 | 6,957 | 11,662 | 5,756 | 28,462 | 46.5 |
| Transport, Ware., Telecommunications | 639 | 3,285 | 6,696 | 1,116 | 169 | 11,905 | 19.4 |
| Wholesale and retail trade | 72 | 68 | 1,166 | 169 | 2,064 | 3,539 | 5.8 |
| Construction | 3 | 80 | 222 | 285 | 764 | 1,354 | 2.2 |
| Real Estate, Rental Services | 3 | 29 | 99 | 560 | 652 | 1,343 | 2.2 |
| Total Inflow | 1,190 | 8,535 | 17,639 | 19,136 | 14,709 | 61,209 | 100.0 |
| Stock (Cumulative) | 38,523 | 71,305 | 95,073 | 157,540 | 74,756 | - | - |

Source: Central Bank of Turkey

The value of the **FDI Stock** in Turkey, which had exceeded the USD 150 billion figure at the end of 2007, is now calculated to be USD 75 billion as of end of 2008.*

Central Bank of Turkey has started giving more in-depth information as to the breakdown of FDI inflows by region and country, in its January 2009 Balance of Payments Statistics. Accordingly, the positions of some countries which previously remained unclear in regional categories titled as the 'Gulf States' or 'Other Asian and Latin American Countries' has been released.

When we take a look at **the breakdown of 2008 FDI inflows** by country, we see that the UK (mainly on account of the acquisition of the TEKEL's tobacco branch by BAT within the scope of the privatization program), and Luxembourg (mainly on account of the capital brought in by the private equity fund for the acquisition of Migros) represent one third of all FDI inflows.

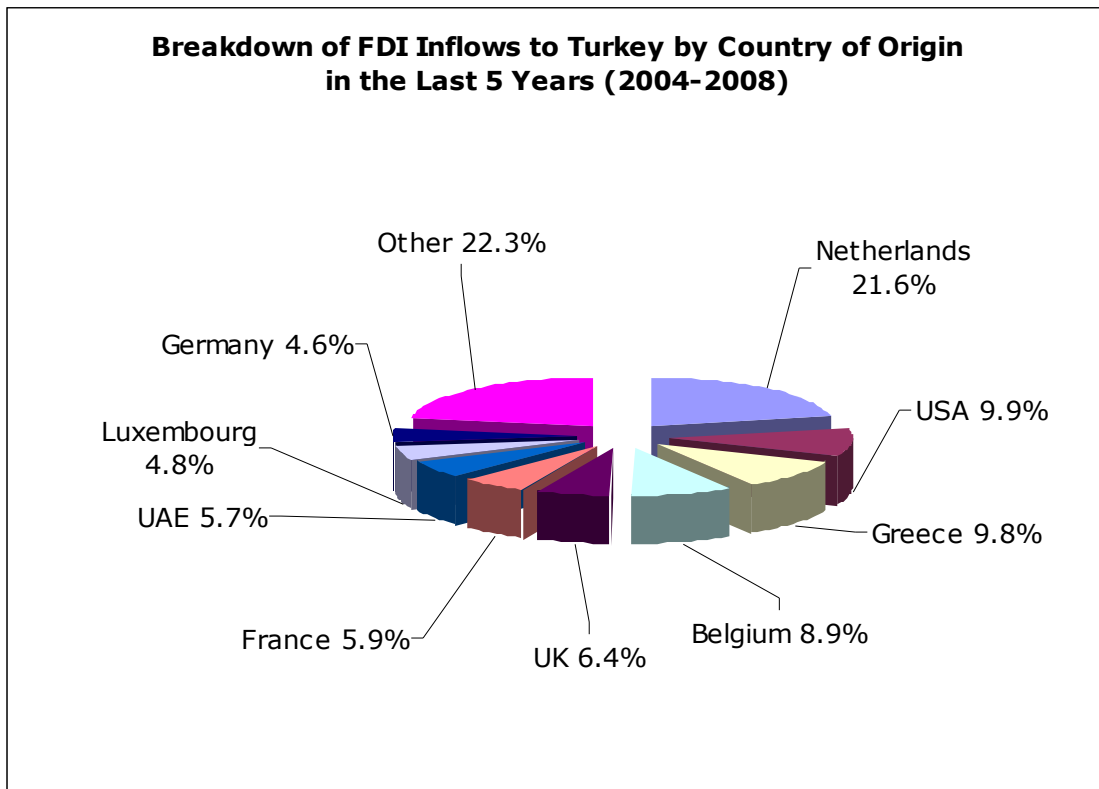
* In this stock data, value changes in the balance sheets of foreign-invested companies as well as new capital inflows are taken into account, and calculations therefore depend on a number of variables such as foreign-exchange rates, stock (share) prices, and the like.

| | 2007 | FDI Inflows (million USD) | Share (%) |
|----|--------------|------------------------------|--------------|
| 1 | Netherlands | 5.443 | 28,4 |
| 2 | USA | 4.212 | 22,0 |
| 3 | Greece | 2.360 | 12,3 |
| 4 | Germany | 954 | 5,0 |
| 5 | UK | 702 | 3,7 |
| 6 | Portugal | 701 | 3,7 |
| 7 | Kazakhstan | 613 | 3,2 |
| 8 | Spain | 583 | 3,0 |
| 9 | Luxembourg | 583 | 3,0 |
| 10 | Brazil | 467 | 2,4 |
| | Other | 2.518 | 13,2 |
| | Total | 19.136 | 100,0 |

| | 2008 | FDI Inflows (million USD) | Share (%) |
|----|--------------|------------------------------|--------------|
| 1 | UK | 2.281 | 15,5 |
| 2 | Luxembourg | 2.074 | 14,1 |
| 3 | Netherlands | 1.778 | 12,1 |
| 4 | S. Arabia | 1.244 | 8,5 |
| 5 | Germany | 1.050 | 7,1 |
| 6 | USA | 859 | 5,8 |
| 7 | Spain | 825 | 5,6 |
| 8 | Greece | 778 | 5,3 |
| 9 | France | 682 | 4,6 |
| 10 | Austuria | 559 | 3,8 |
| | Other | 2.579 | 17,5 |
| | Total | 14.709 | 100,0 |

Source: Central Bank of Turkey

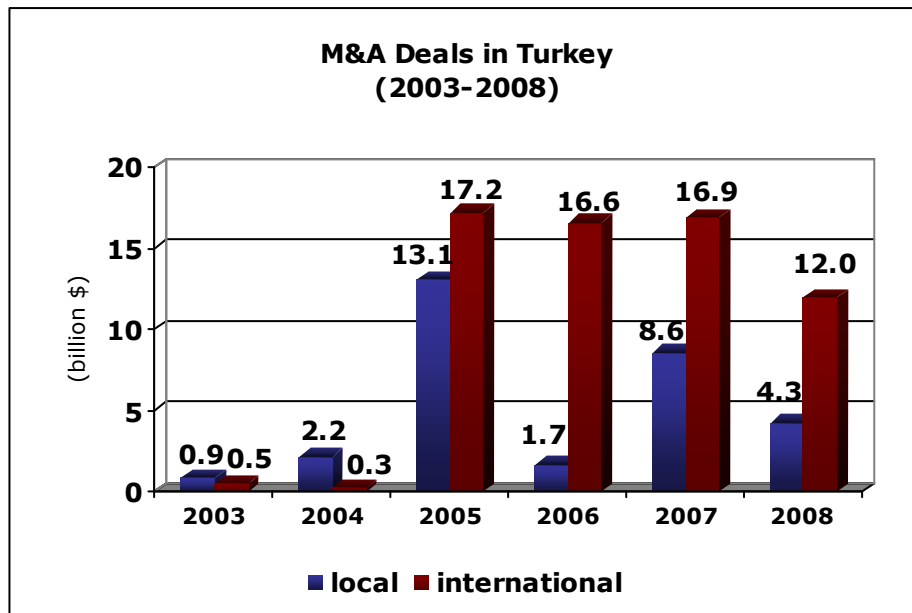
An overall look at FDI inflows to Turkey during the last 5-year period reveals that 76 percent of these inflows originate from European countries, 10 percent come from North America, and 9 percent from Gulf States. The leaders of their geographical regions are; the Netherlands among European countries with a 22 percent share of last 5 years' inflows, the USA in North America with a 10 percent share, and the United Arab Emirates in the Gulf region with a share of 6 percent.



Source: Central Bank of Turkey

Counting the 2,759 new foreign-invested companies/branch offices established in 2008 and the participation of foreign capital in 638 companies that were already in operation, the total **number of foreign-invested companies** in Turkey has reached to **21,079**, according to the data of Undersecretariat of Treasury.

In 2008, international investors participated in more than 100 of the approximately 170 **merger and acquisition (M&A)** transactions made in 2008 in Turkey. The total value of the M&A transactions, the amounts of which were disclosed, amount to USD 16.3 billion. The total value of all M&A transactions - including the amounts estimated for the undisclosed ones - add up to USD 18.5 billion. International investors participated in USD 13.8 billion of this amount, which represents 75 percent of the total figure.



Source: Ernst & Young Mergers & Acquisitions 2008 Report

Finance sector has been the principal arena of M&A transactions in Turkey since 2005, as a result of the transactions carried out initially in banking and then the insurance sub-sectors. The sector has again taken the lead as regards the number of transactions made in 2008, with 20 transactions. Energy sector, which ranked second with 19 transactions, has been the leading area in terms of the value of transactions, with a total value of deals amounting to USD 5.8 billion. The sector, where almost one-third of the total value of deals took place, has outdone the finance sector for the first time. As 28 percent of the transactions (by value) made in the energy area were made between private sector companies, 72 percent originated from sales through public tenders. International investors participated in 82 percent of the transactions (by value) in the energy sector - in partnership with local partners in 53 percent of the transactions made. Energy sector is followed by the retail sector (mainly on account of the Migros deal) and by the finance sector (on account of transactions made with insurance companies).

Acquisition of the tobacco branch of TEKEL by BAT within the scope of the privatization program at a price of USD 1.72 billion; purchase of 50.8 percent of Migros' shares by a private equity fund for USD 1.65 billion, and the transactions completed by way of Bařkent Natural Gas Distribution and Bařkent Electricity Distribution tenders are major transactions of 2008, with values exceeding USD 1 billion. (See Appendix II)

As for transactions of smaller scale, the transactions made in some service sectors such as logistics, security, and cleaning catch the attention.

Privatization transactions constitute the essential part of the highest-value transactions. The value of the transactions made within the scope of the privatization program constitutes - as it had previously in the last 3 years - almost 40 percent of all the transactions made throughout the year.

In 2009, it is expected that FDI inflows will drop again by 20 percent as in 2008, in Turkey and the world as regards the most optimistic forecast – or probably at a yet severe rate. This indicates that FDI inflows in 2009 are likely to decrease from its 2008 level of USD 1.4 trillion to around USD 1 trillion globally and from USD 18 billion in 2008 to a level below USD 14 billion, towards USD 10 billion level in Turkey.

It is expected that the downward drift of M&A transactions will continue in 2009, with further momentum, in line with the global trend.

The energy sector, on which both domestic and international investors have intensified their attention, is expected to continue to be the most popular focus of attention in 2009 and 2010 as well, due to the increase in the energy demand and investment requirements. In general the service sector – especially health and real estate - can be expected to experience activity and retail and finance sectors are also expected to attract attention. Yet it is likely to predict that mergers generally will outweigh acquisitions and consolidations will be witnessed in various sectors.

According to 2009 privatization program, it is expected that the privatization processes of the National Lottery Administration, power and natural gas distribution companies, sugar mills which were given start in 2008 will be concluded and the uncertainties associated with the processes concerning the public banks, highways and bridges will be cleared this year. Privatization of BOTAŞ (natural gas), MKEK (machinery) and TKİ (coal production) are also expected to come to the privatization agenda.

APPENDIX I: UNCTAD Preliminary Data on FDI Inflows in 2008

| Country / Region (Bn \$) | 2007 | 2008 | Change (%) |
|---------------------------------|---------------|---------------|--------------|
| World | 1833.3 | 1449.1 | -21.0 |
| Developed economies | 1247.6 | 840.1 | -32.7 |
| Europe | 848.5 | 562.3 | -33.7 |
| EU | 804.3 | 557.4 | -30.7 |
| Austria | 30.7 | 12.9 | -58.0 |
| Belgium | 40.6 | 17.1 | -57.9 |
| Czech Republic | 9.1 | 11.4 | 25.3 |
| Denmark | 11.2 | 14.7 | 31.3 |
| Finlandiya | 8.5 | -6.3 | -174.1 |
| France | 158 | 114.3 | -27.7 |
| Germany | 50.9 | 26 | -48.9 |
| Hungary | 5.6 | 3.4 | -39.3 |
| Ireland | 30.6 | -6.1 | -119.9 |
| Italy | 40.2 | 2.3 | -94.3 |
| Netherlands | 99.4 | 29.5 | -70.3 |
| Poland | 17.6 | 16.2 | -8.0 |
| Romania | 9.8 | 10.6 | 8.2 |
| Spain | 53.4 | 57.3 | 7.3 |
| Sweden | 21 | 36.5 | 73.8 |
| UK | 224 | 109.4 | -51.2 |
| USA | 232.8 | 220 | -5.5 |
| Japan | 22.5 | 17.4 | -22.7 |
| Developing economies | 499.7 | 517.7 | 3.6 |
| Africa | 53 | 61.9 | 16.8 |
| Egypt | 11.6 | 10.9 | -6.0 |
| Morocco | 2.6 | 2.4 | -7.7 |
| South Africa | 5.7 | 12 | 110.5 |
| Latin America and the Caribbean | 126.3 | 142.3 | 12.7 |
| Argentina | 5.7 | 7.3 | 28.1 |
| Brazil | 34.6 | 41.7 | 20.5 |
| Chile | 14.5 | 17.8 | 22.8 |
| Colombia | 9 | 10.9 | 21.1 |
| Mexico | 24.7 | 20.7 | -16.2 |
| Peru | 5.3 | 7.4 | 39.6 |
| Asia and Oceania | 320.5 | 313.5 | -2.2 |
| West Asia | 71.5 | 56.3 | -21.3 |
| Turkey | 22 | 16.4 | -25.5 |
| South, East and South-East Asia | 247.8 | 256.1 | 3.3 |
| China | 83.5 | 92.4 | 10.7 |
| Hong Kong (China) | 59.9 | 60.7 | 1.3 |
| India | 23 | 36.7 | 59.6 |
| Indonesia | 6.9 | 5.5 | -20.3 |
| Malaysia | 8.4 | 12.9 | 53.6 |
| Singapore | 24.1 | 10.3 | -57.3 |
| Thailand | 9.6 | 9.2 | -4.2 |
| Transition economies | 85.9 | 91.3 | 6.3 |
| Russian Federation | 52.5 | 61.7 | 17.5 |
| Ukraine | 9.9 | 9.7 | -2.0 |

APPENDIX II: Major* International M&A Deals in Turkey (2008)

| Target company | Buyer | Country of Buyer | Shares (%) | Deal Value (USD mn) |
|---|--|-------------------------|-------------------|----------------------------|
| Tekel Tobacco ** | British American Tobacco (BAT) | UK | 100 | 1,720.00 |
| Migros Turk (retail chain) | BC Partners, DeA Capital, Turkven | UK, Italy, Turkey | 50.8 | 1,650.00 |
| Başkent Doğalgaz Dağ. ** (natural gas distribution) | Global Inv. Holding, Energaz, ABN Amro | Turkey, Netherlands | 100 | 1,610.00 |
| Başkent Elektrik Dağ. ** (electricity distribution) | EnerjiSA, Sabancı Holding, Verbund | Turkey, Austria | 100 | 1,225.00 |
| Finansbank | National Bank of Greece | Greece | 9.7 | 697.2 |
| Sakarya Elektrik Dağ. ** (electricity distribution) | AkCez | Turkey, Czech Rep. | 100 | 600 |
| Acıbadem Sağlık Hiz. | Abraaj Capital | UAE | 53.8 | 586.7 |
| Akpet | Lukoil | Russia | 100 | 555 |
| Axa Oyak Holding | Axa Group | France | 50 | 525 |
| Tekfen Construction | Palmali Holding, SOCAR | Azerbaijan | 50 | 520 |
| Koc Allianz Insurance | Allianz | Germany | 47.1 | 392.4 |
| Akenerji | CEZ | Czech Rep. | 37.4 | 302.6 |
| Güven Insurance | Groupama | France | 100 | 282.5 |
| Izgaz (natural gas distr.) | Gaz de France | France | 90 | 232 |
| Koc Allianz Life Insurance | Allianz | Germany | 49 | 198.4 |
| Oyak Life Insurance | ING Group | Netherlands | 100 | 169.8 |
| Adocim (cement,concrete) | Titan Cement Group | Greece | 50 | 132.7 |

*100 million USD and above

** Privatization

Source: Ernst&Young, Deloitte, ISI Dealwatch

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