

EYE ON TURKEY

Inside this issue:

- ◆ Despite turbulences, Turkey provides golden opportunities
- ◆ ETF's in the Turkish markets
- ◆ Infrastructure & project finance, a draft by-law
- ◆ Turkish retail market at a glance
- ◆ Focus List

Editor in chief

Guler Manisali Darman
Principal
CGS Center

Editorial Board

Guler Manisali Darman
Dr. Cagri Bagatur
Necati Turker
Semsettin Akcay
Prof Dr. Can Simga
Mugan

Editor's Window:

Despite turbulences Turkey provides golden opportunities

Improving market regulations strengthened the investment climate and fostered productivity and sustainable economic growth in Turkey.

Openness to foreign trade and removal of most of the administrative barriers increased the FDI in Turkey in recent years.

Foreign Direct Investments in Turkey	
2006:	\$20.1billion
2007:	\$21.9 billion
2008:	\$15-20 billion expected

Turkish SME's constitute 61 percent of total employment but contribute only 26.5 percent to the economy's value added*. SME's low contribution to economic activity is related to limited market competition, failure to reach out cheap capital, lack of integration

with larger firms among other bottlenecks. From that end, they provide significant flourishing opportuni-



ties as untapped potential.

Turkey has significantly reduced the time for business registration but the cost is still high.

Resolution mechanisms for commercial disputes have improved but there is still room for development to reform its commercial and civil justice systems. The cost of litigation, backlogs in the commercial courts and enforcement proceedings are still problematic.

These may be some of the down sides of investing in Turkey. However, the upside is

that despite all the turbulences Turkey provides golden opportunities. First, it has a population of more than 70 million. More than 50 percent of the population is less than 30 years old. The level of education in many universities is no less than the western well known universities, which means great human resource skills.

One of the unique features of Turkish people is that, parallel to its geographical bridging East to West, the business world is also Eurasian. They are "Westerners oriented to Eastern culture".

Those who are involved in investments in Turkey will definitely enjoy this cultural "goodwill" which may be difficult to measure, yet an important intangible asset on the balance sheet.

Guler Manisali-Darman
Principal,
CGS Center

* World Bank, "Doing Business" report 2006

ETF's in the Turkish Markets



Istanbul Stock Exchange Building

As global markets continue to go through a shake up, investors are looking to diversify and reduce their risks more than ever. Exchange Traded Funds (ETFs) are one of the instruments that allow investors to achieve this.

An ETF is a variation of an investment fund that usually consists of stocks and bonds – the main difference being that an ETF is traded like an individual stock on the stock exchange at a market price that is continuously updated during the trading day.

The majority of ETF's are index-linked and enable investors to manage their country or sector positions in real time, with as little as a single transaction. The composition of an ETF's portfolio is transparent and the use of ETF's is generally associated with lower costs.

ETF's have been gaining popularity in Turkey in recent years.

The first ETF, established in 2004, was the *Dow Jones Istanbul 20*, set-up to replicate the performance of 20 Turkish blue-chip companies.

There are currently nine ETF's traded on the Istanbul Stock Exchange. Among those are;

- the *Non-Financial Istanbul 20 ETF*, which was the first sector-tracking ETF, *BMD Securities, Inc.*
- *Dow Jones Islamic Markets Turkey ETF*, which was launched for investors who wish to invest according to Islamic investment guidelines and consists of 20 Islam compliant companies,
- *Istanbul Gold ETF*, Turkey's first gold ETF, where 1 share equals 1 gram of gold, tracking the international spot USD Ounce price of Gold,
- *FTSE Istanbul Bond ETF*, consisting of Turkish Government bonds
- *Is Yatirim Dow Jones Turkey 15*, which offers investment in 15 of the largest stocks in the Istanbul Stock Exchange

Puren Crawford
Financial Analyst

...ETF's have been gaining popularity in Turkey in recent years. The first ETF, established in 2004, was the *Dow Jones Istanbul 20*,

Turkish Pension funds

No. of participants	:	1,603,406
Size of consolidated portfolio	:	5,147, 000, 000 YTR
Composition of portfolio	:	69% government bonds & T-bills

31% other assets:

- 11% shares
- 14% reverse repo
- 5% other
- 1% foreign assets

Turkish Banking Sector

Assets	:	YTR 630 billion
Total Credits	:	YTR 337 billion (24.3% consumer credit ic. Mortgage, 10%) Credit cards, 19.4% Roll-over credits, 7.3% Export credits, 39% others)
Securities Portfolio	:	YTR 172 billion (84% government bonds & T-bills)
Equities	:	YTR 76 billion

IT as a tool for INFRASTRUCTURE and PROJECT FINANCE a Draft BY-LAW for Public Review by the CMB

The CMB (Capital Market Board) of Turkey has introduced a draft by-law regarding Infrastructure Investment Company (hereinafter IIT) in order to facilitate to finance large infrastructure projects through capital markets.

In order to attract private sector investment in infrastructure, the CMB tries to eliminate the level of risk to investors which might arise from the lack of well-developed regulatory and legal framework .

The Draft proposes infrastructure IT as a way of public private partnerships(PPP).The aim of the Draft has been declared as; infrastructure projects/ investments, previously done by the central and local governments or municipalities with the BOT model, will be

financed through capital markets, and, this new business model proposes innovative and efficient mechanism to consider a blend of private finance initiatives(PFI) and PPP to meet the infrastructure development needs of the Turkey.

The Draft defines criteria for founders of IIT, establishment procedures, asset management, investment activities and public disclosure etc..

IIT will be joint stock company, its initial paid-in capital should be at least YTR 100 million, and, one of the founders to be financially qualified plus experience requirements. In this new model, the CMB, for the sake of investors confidence,considers corporate governance practices, the adoption of sound accounting and disclosure practices, transparency standards and

other practices such as feasibility and appraisal requirements prior to investment decision.

In conclusion, we understand that the Regulatory Authority is well aware of infrastructure financing gap, and, with this model, private and public sector players working together can help reduce this gap.

In the foreseeable future, we see opportunities to invest infrastructure projects which is relatively untouched investment area through this model.

**Oktay AYDIN,MBA,CPA
Chairman,
Standard Gayrimenkul
Degerleme
Uygulamaları A.S.**



IIT will be joint stock company, its initial paid-in capital should be at least YTR 100 million, and, one of the founders to be financially qualified plus experience requirements...

Turkish Retail Market at a Glance

In Turkey retail market is performing relatively better with high level income group consumer spending and increasing disposable income in recent years. There are 188 retail centers amounting to more than 3 million square meter. Around 120 of them is in Istanbul, Ankara and Izmir. Another 66 is currently under construction and another 84 are already planned. Medium sized fast growing cities in Turkey has a promising potential for new retail investments.

By the end of 2007 the average gross leasable area

(GLA) is around 44 square meter / 1000 inhabitants in Turkey, this number is above 200 square meters in Europe.

There is another 3 million square meter retail center capacity which is under construction. In 2 years total retail supply is estimated to reach 6 million square meters. It means that in 2 years supply will be doubled. Recent economic fluctuations in the world have also caused some slowdown in consumer demand for

(contin'd on page 5)

FOCUS LIST – Investment Opportunities

Land Development Project in Istanbul

A land development project which is comprised constructing high rise residences, offices and some shopping area.
Total land area: 14.576 m2



Boutique Shopping Mall

Project is a boutique shopping mall on the European side which is a A+ income level area. The mall is opened in 2007. It has approximately 6.000 sqm gross leasable area

Brokerage House

It is the sale of a brokerage house that holds all licenses to carry out investment banking activities in brokerage, asset management, IPO, repo/reverse repo, investment advisory, derivatives, margin account topics.

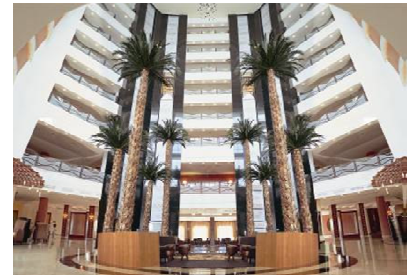
Department Store Chain

A company in the retail sector in 50 years , has six departments and two outlets, and undertakes the distribution of more than 200 local and global brands currently.



Thermal Clinic Spa Hotel

A five star, 330 rooms thermal medical Spa hotel opened in 2007 in Central Anatolia, in a city close to Ankara, a famous thermal area. The hotel is built on a land of 43.396 sqm. Total construction area is 45.642 sqm.



IT Company

Web-based distribution, open source-free of charge, proprietary-license fees, support & maintenance subscription fees, consulting & education services fees. Huge growth opportunity as \$1.2 billion , global market by 2010

Automotive & General Illumination project-An innovation project

The project was presented to United Nations Illumination Committee by Turkish Ministry of Industry and Turkish Ministry of Foreign Affairs and United Nations' Inland Transport, Lighting and Light Signalling Committee (UNECE-GRE) started working on the project to make it an international standart in automotive illumination. In April 2006, in Switzerland the project was awarded with the first place in International Innovations and Inventions Fair out of 1000 nominees from 42 countries worldwide.

Marbel Extraction and Production Licenses

Certified marbel extraction and production licences in different parts of Turkey

Numerous innovative projects in various fiels such as organic agriculture, husbandry, algea production facilities etc. are going into life and need venture capital

CGSCENTER

YOUR PARTNER IN INVESTMENT RESEARCHES IN TURKEY

Turkey where the opportunity lies



Yesilkent Sitesi No 67
Cayyolu 06801
Ankara/TURKEY

Phone: +90 (312) 240 0395
Fax: +90 (312) 241 1799
E-mail: info@cgscenter.com

www.cgscenter.org



'The material in this communication is for informational purposes only. CGS Center accepts no liability whatsoever for any use of this communication or any action taken based on or arising from the material contained herein'.

In the forthcoming issue

- ◆ Taxation
- ◆ Draft Commercial Law
- ◆ Securitization in Turkey
- ◆ More to come

Corporate Governance and Sustainability Center is composed of eligible partners, in the field of corporate governance, and related services ranging from assessment to research and from raising awareness to compliance.

Associates of CGSCenter assists Turkish companies active in various fields such as finance, IT, insurance, energy, tourism, real estate development, and construction, that seek finance (equity or debt), open for partnership opportunities, interested in sell-outs, or buy-outs, or mergers and acquisitions.

Our Associates;

GMD Global Advisors

GNT Tourism & Project Management

Bagatur Law Company

(continued from page 3)
retail goods, but Turkey's economic future is still bright. These features are attracting foreign investor's interest in the market. In addition to that existing investments recently Metro Cash & Carry group announced 100 million Euro new investments for his year and Tesco announced that they will open 100 new stores in next 5 years.

International luxury brands has entered the market starting with Harvey Nichols in 2006 in

Istanbul and others continued in 2007 in many prestigious retail centers.

On the other hand entertainment, leisure and dining have become another crucial aspect of retail center developments.

We can say that Turkey has great opportunities for retail investments and transaction of properties.

Necati Turker
CEO & President of GNT Tourism
Partner CGS Center

Inside;

FOCUS LIST of promising projects and investment opportunities

EYE ON TURKEY is a free monthly newsletter of **CGSCENTER**



There is another 3 million square meter retail center capacity which is under construction. In 2 years total retail supply is estimated to reach 6 million square meters. It means that in 2 years supply will be doubled.