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Turkey M&A Outlook:

Identifying opportunities in a changing market

Contents

Foreword

Welcome to Turkey M&A Outlook: Identifying opportunities and navigating change, published by KPMG Turkey in association with mergermarket. Based on a series of 50 interviews with corporate executives, private equity practitioners, financial advisors and legal advisors based in Turkey, this report provides invaluable insight into the challenges and opportunities facing deal makers in the current market and provides a detailed forecast for the upcoming 12 months.

Respondents' outlook for the Turkish M&A market is overwhelmingly positive. The vast majority of respondents (86%) expect Turkey to see increased M&A activity over the next 12 month period, fuelled by the country's extensive privatisation program, favourable regulatory changes including a reformed Turkish Commercial Code (TCC) and an abundance of attractive targets. Privatisations have generated some of 2010's most high-profile transactions, with six of the 10 largest deals of 2010 taking the form of privatised asset sales. Looking ahead, the large majority of respondents (70%) believe privatisations will continue to be the primary driver of Turkish M&A over the next 12 month period.

But apart from major privatisations and large family owned conglomerates, the country's business landscape is heavily populated by small to medium sized businesses (SMEs) and mid-market opportunities. This is reflected in respondents' outlook for average deal sizes: 43% of respondents expect most deals to be valued between €51m and €100m, meaning massive privatisation deals will be exceptions rather than the norm.

Interestingly, though businesses of this size in Europe and North America may find financing hard to come by, such businesses are unlikely to face the same hurdles in Turkey: only a slim portion of respondents (12%) identify financing as a major obstacle to closing deals. Lessons learned from Turkey's own financial crisis in 2001, which inspired a host of regulatory reforms aimed at curbing risky lending behaviour and strengthening banks' capital bases, have indeed left Turkish lenders in a stronger position than most.

Interestingly, reforms of this nature are now key components of post-financial crisis regulatory reform in other European countries under Solvency II and Basel III, illustrating the strength of the Turkish banking system when viewed on a global scale.

Another key feature of the M&A environment in Turkey will be the return of private equity after a protracted quiet period. The €1.5bn sale of Turkish spirits company Mey Icki Sanayii ve Ticaret, a portfolio company of US-based private equity firm TPG Capital and Turkey-based private equity firm Actera Group, to trade buyer Diageo in early 2011 has served as somewhat of a bellwether for private equity, signalling investor interest and favourable valuations. This is in line with respondents' predictions for the next 12 months: the largest percentage of respondents (39%) expect IPOs to be the most common exit type, while remaining respondents are almost evenly divided between secondary and trade exits. Turkish private equity more closely resembles the venture capital model, where investments are typically smaller, growth oriented and debt-lite, and many of the targets from years' past are not laden with the heavy LBO debt burdens found in other markets.

In addition to the above findings, this report pinpoints the key concerns of investors and offers insight into financing methods, deal structures and exit strategies. We hope you find this report both informative and useful and we welcome any feedback you may have.

Jared Irving
Partner, Transactions & Restructuring
KPMG Turkey

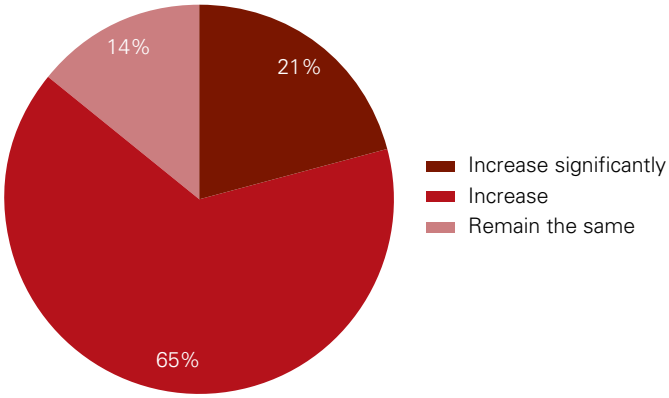
Methodology

In the fourth quarter of 2010, mergermarket interviewed 50 corporate executives, private equity practitioners, financial advisers and lawyers regarding their outlook on the Turkish M&A market. Respondents provided insight into the foremost developments, including changes to Turkish Commercial Code (TCC), the ongoing privatisation programme and increased private equity activity. All respondents are anonymous and results are presented in aggregate. Deal volume and value are based on announced deals only.

Survey findings

Section 1: M&A overview

What do you expect to happen to the total value and volume of M&A transactions in Turkey over the next 12 months?

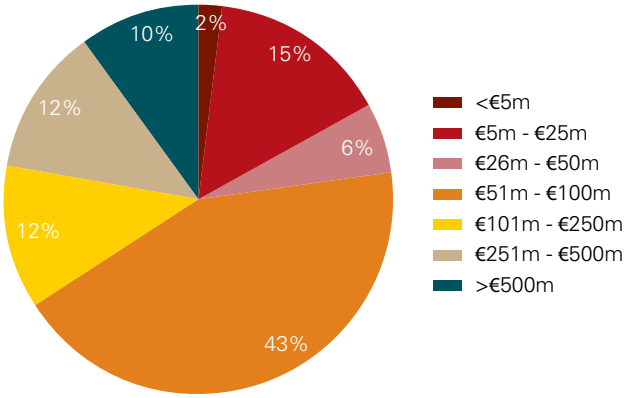


The overwhelming majority of respondents (86%) expect to see an increase in the value and volume of Turkish M&A transactions over the next 12 months, in keeping with mergermarket data which shows deal volume increasing from 65 to 100 and value increasing dramatically from €2.2bn to €16.7bn from 2009 to 2010. The potent mix of drivers behind this recent increase will likely stay firmly in place for the foreseeable future, with privatisation efforts on the part of the Turkish government, a young population and favourable location – straddling the Western and Eastern markets – being just three of many important features drawing investors to the country.

Added to this is a more general improvement in the financial markets, the return of private equity as meaningful competitors for assets and an influx of multinational corporations from the East and the West. Indeed, Eastern buyers using Turkey as a base to grow their business overseas, combined with Western buyers looking to cash in on the Turkey's rapidly developing industries and attractive demographics, promise to fuel M&A well into 2011.

In terms of deal value, the largest transactions are likely to come from the massive privatisation programme set in motion by The Republic of Turkey Prime Ministry Privatisation Administration (OIB), whose asset sales accounted for six of the top 10 largest transactions of 2010.

In which deal size range do you expect most M&A transactions to fall over the next 12 months?



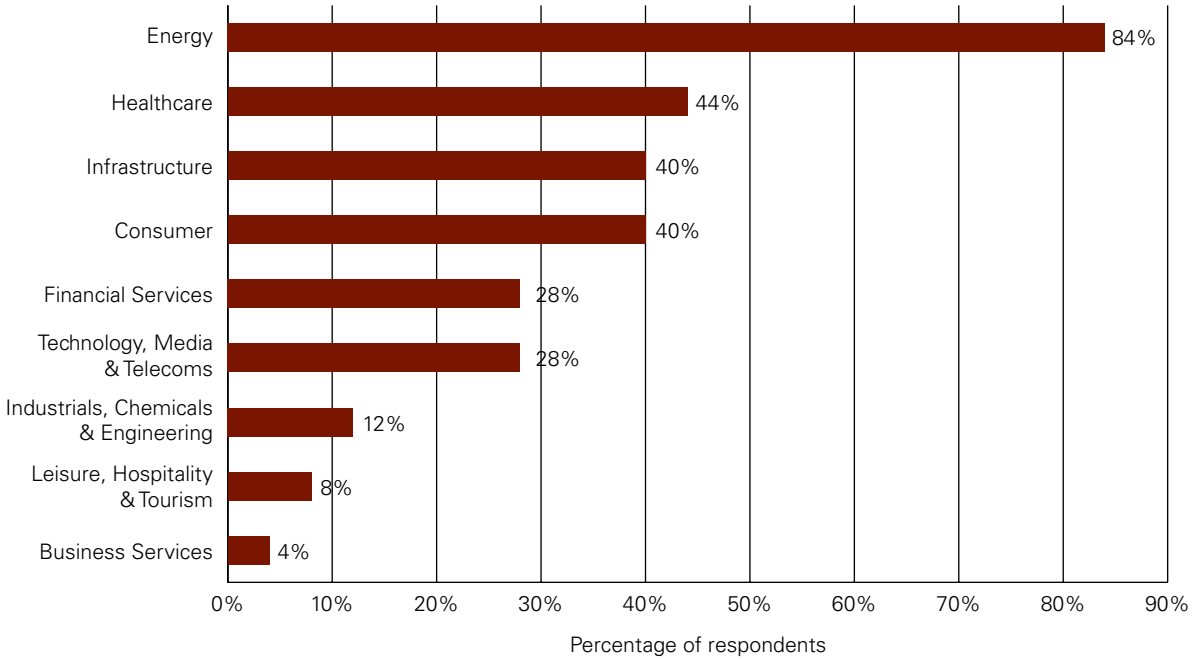
When it comes to the average size of M&A transactions in the next 12 months, respondents generally do not expect multi-billion dollar privatisations to be the norm. The largest portion of respondents (43%) predicts that deals will be valued between €51m and €100m while approximately one-quarter of respondents expect most deals to be valued between €101m and €500m.

This focus on the small end of the market can be explained largely by the unique make-up of Turkey's economy, which apart from major family owned conglomerates is populated by small to mid-market businesses. In jurisdictions with similar market compositions, respondents voice similar expectations when it comes to deal size splits.

That said, larger deals are indeed returning to the market: all deals announced in Turkey in 2009 were valued below £500m, but 2010 saw a total of seven deals exceeding this amount in value. Of course, in Turkey, privatisations play a critical role in boosting these figures, but even without extensive OIB asset sale activity there are a string of largecap transactions. These include Spain-based Banco Bilbao Vizcaya Argentaria (BBVA)'s acquisition of a 24.9% stake in Turkiye Garanti Bankası from Doğuş Group and GE Araştırma ve Musavirlik, a Turkish subsidiary of General Electric Company (GE), and the €1.2bn merger of Turkey's Fortis Bank and TEB Bank.

"The M&A market was booming in 2005 to 2008, but now we are seeing more and more deals around €50m. But if we are considering privatisations as M&A deals, this year we are going to see larger transactions, but a very significant part of these deals will be larger than €50m."

In which industries do you expect foreign acquirers to be most active in Turkey over the next 12 months? (Respondents were requested to select their top three choice)



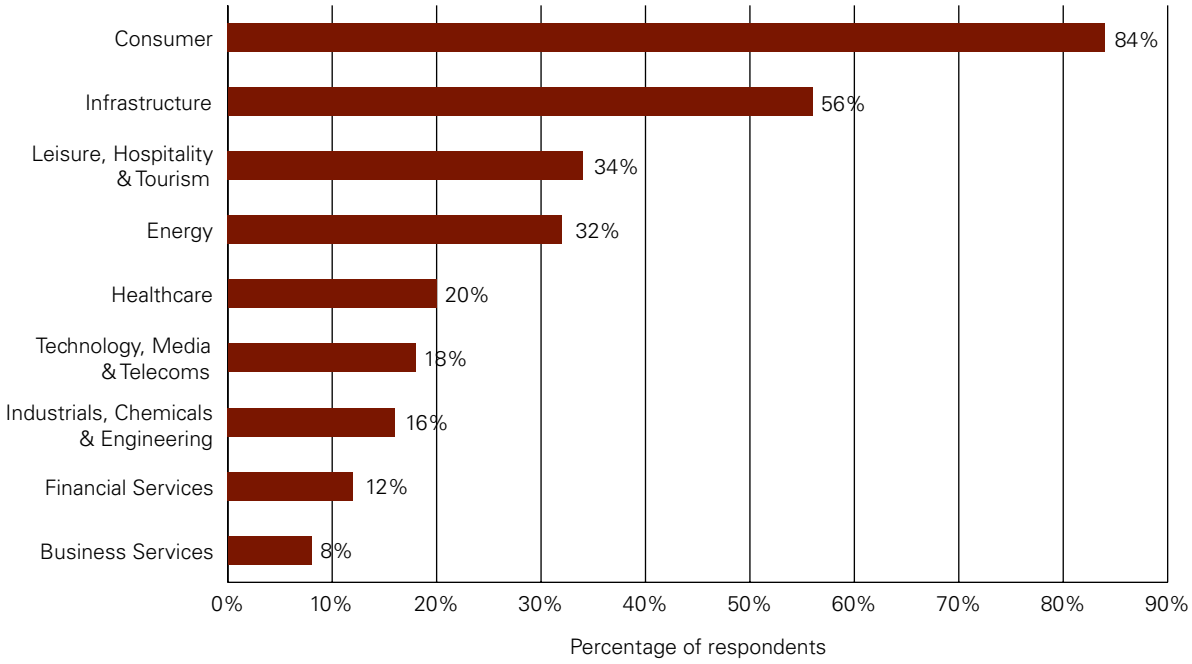
Foreign investors entering Turkey over the next 12 months are most likely to target the Energy sector, according to an overwhelming 84% majority of respondents. The healthcare, infrastructure and consumer sectors are also likely to see increased inbound deal flow, according to approximately 40% of respondents.

This reflects broader investment trends, as Energy and Healthcare tend to top the charts not only in Turkey but also on a wider regional scale: Energy and Healthcare account for 9% and 6.8% of deal volume in the EMEA region, respectively, while the Energy sector alone represents 24.5% of the region's aggregate deal value.

Deal activity in 2010 aligns with respondents' predictions, as 2011's largest inbound deals so far fall in the Energy sector and involve foreign strategic buyers. Austrian-based OMV AG's investment in the remaining stake in Petrol Ofisi, valued at €539m, is one example, as is Canada-based TransAtlantic Petroleum Corporation's €77m acquisition of Turkey's Amity Oil International. A closer look at inbound M&A trends suggests the consumer sector is also becoming increasingly attractive to foreign players in general and private equity firms in particular: the appeal of Turkey's consumer businesses, which range from food and beverage to retail companies, has been illustrated quite clearly by UK-based Diageo's €1.5bn acquisition of Turkish spirits business Mey Icki, which was acquired by US-based private equity firm TPG and Turkish-based Actera Group for approximately €669m in 2006.

"Healthcare is a booming industry where investors feel they can never go wrong. There is always going to be demand. Additionally, industrials is always attractive to foreign strategic acquirers because they don't have to set up new plants."

In which industries do you expect domestic acquirers to be most active in Turkey over the next 12 months? (Respondents were requested to select their top three choice)

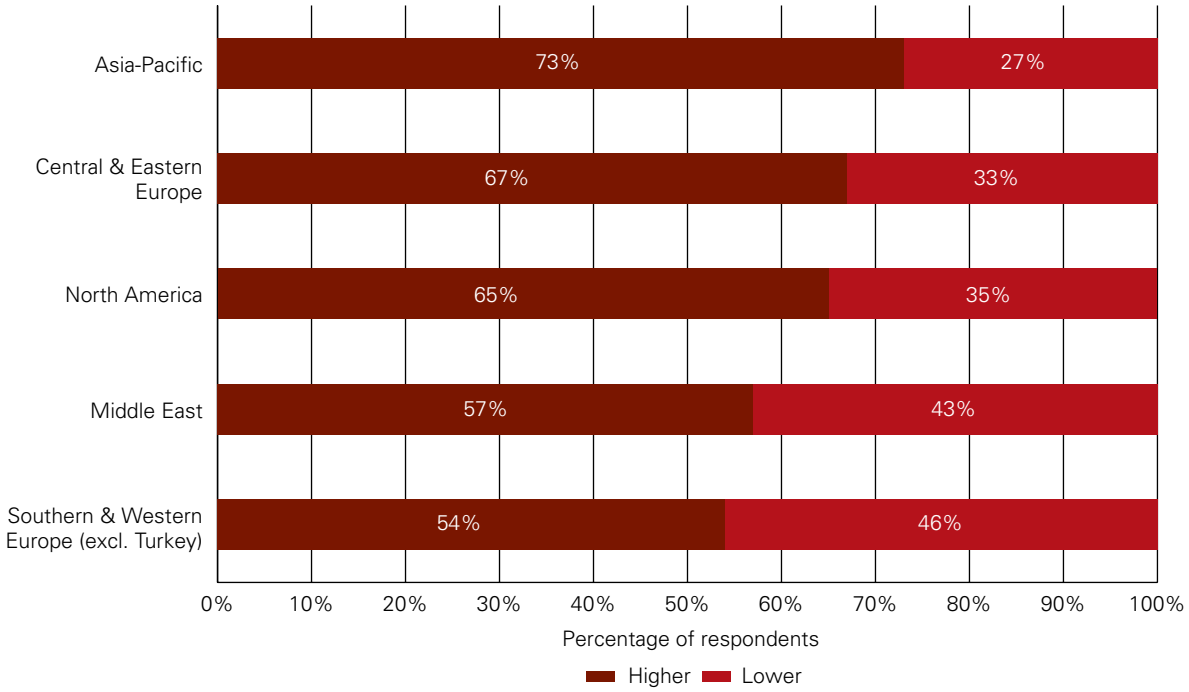


Local players are also expected to target Turkey's consumer sector, which is identified by a substantial 84% majority of respondents as the hottest industry for domestic acquirers in the coming 12 months. Domestic consolidation can already be found in an eclectic mix of retail, food and beverage markets, with selected deals including the €24m acquisition of Ipek Giyim Magazalari Ticaret ve Sanayii AS by Carrefour Sabanci Tic Merk, and the €13m merger of Ihlas Holding AS and Kristal Kola ve Mesrubat Sanayi Ticaret AS in the consumer food and beverage space.

Apart from the consumer sector, more than half (56%) identify infrastructure as the most active sector for domestic M&A, which is not surprising given the extensive portfolio of state-backed infrastructure assets on the table at the moment. It should be noted that only 40% of respondents in the previous question had said infrastructure would be a hot spot for cross-border buyers, as this highlights local players' constant out-bidding of foreign players in recent privatisation auctions.

"Fast moving consumer goods (FMCG) will be busy for domestic and foreign acquirers alike. Already, a lot of FMCG companies are entering the Turkish market with a variety of organic products."

How do you expect the volume of M&A transactions in Turkey over the next twelve months to compare to the volume of M&A transactions in the following regions?

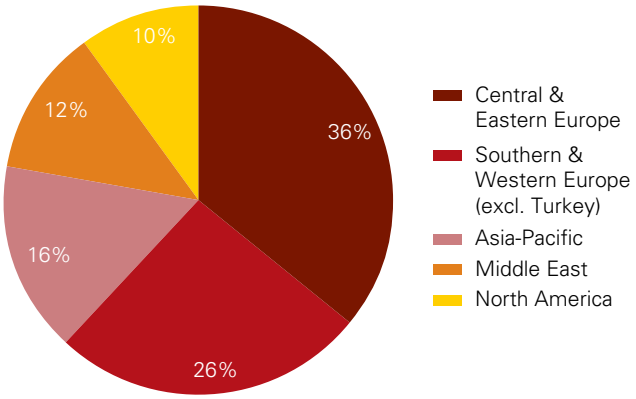


M&A in Turkey is expected to outstrip M&A in other regions across the board. Survey results suggest Southern and Western European markets will be the closest competitors, however even here more than half of respondents expect deal volume to be comparatively lower against Turkey.

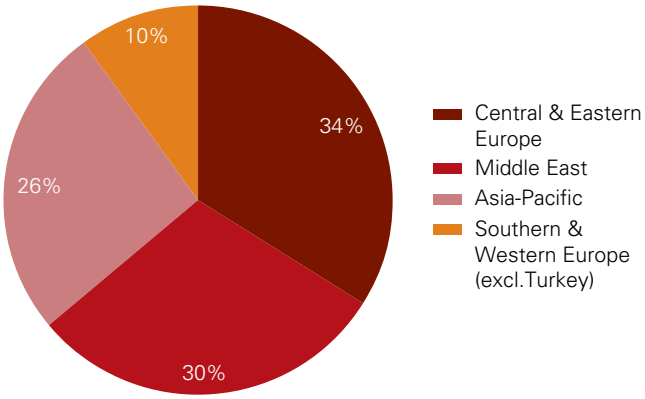
On this point, many respondents point out that Turkey's market lends itself to consolidation as its industries are still largely fragmented. A private equity practitioner based in the country explains that "Turkey is still a developing economy, and doesn't have the level of private ownership that the other parts of Europe have." Turkey's unique demographics are also an important factor in the M&A landscape: the country's young population, emulating Western consumer spending patterns and tastes, has created a more competitive climate in a range of consumer-facing industries – from retail to telecom – as companies attempt to improve their product and service offerings.

"Turkey is more favourably positioned, generally speaking, than any individual Middle Eastern country for M&A. Even the domestic and legal environments are becoming more favourable due to the racket of economic and legal reform taking place."

Which specific region do you expect to generate the most significant inbound M&A in Turkey over the next 12 months?



Which specific region do you expect to be most heavily targeted by Turkish acquirers over the next 12 months?



Inbound M&A activity is expected to be driven largely by other European countries. Buyers from Central and Eastern Europe are especially likely to dominate the cross-border M&A landscape in Turkey this year, according to 36% of respondents, followed by just over one-quarter of respondents who expect the same of Southern and Western European buyers.

Interestingly, less than one-fifth of respondents (16%) expect buyers from the Asia-Pacific region to be the most aggressive foreign players in Turkey – a somewhat weak showing when compared to the high expectations for Asian buyers on a global scale. Asian buyers are frequently mentioned in the context of UK and German M&A activity.

Central and Eastern European players have been somewhat active in the Turkish M&A market in the past several years, with Russia being particularly aggressive in expanding into the Turkish telecom, Energy and Consumer markets. More recently, a bidder from the Czech Republic entered the market with two acquisitions in the Energy sector, both involving assets held by Turkon Holding and MNG Holding. In April, Czech conglomerate Energy - PRO announced it would buy hydropower and construction company TURKON-MNG Electricity Generation and Trading Co. Inc for €288m as well as Kar-En Karadeniz Elektrik Uretim ve Ticaret AS for €20m.

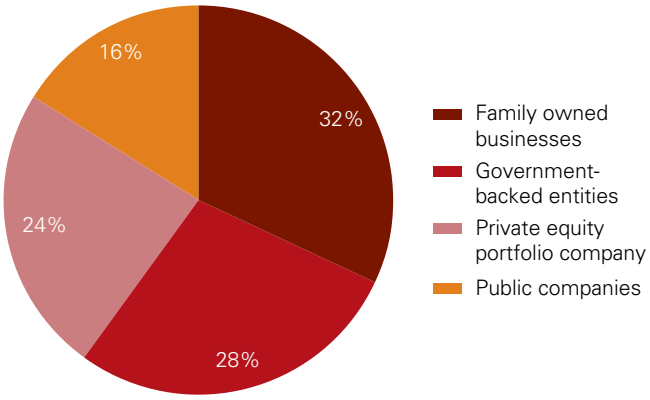
"Western Europe will continue to be the primary source of inbound investments, but Russia should be taken into consideration since it is a growing trade partner."

The relationship between Turkey and CEE countries is expected to be a reciprocal one. More than one-third of respondents expect Turkish acquirers to focus most heavily on CEE opportunities this year. Following not far behind are the Middle East and Asia-Pacific regions.

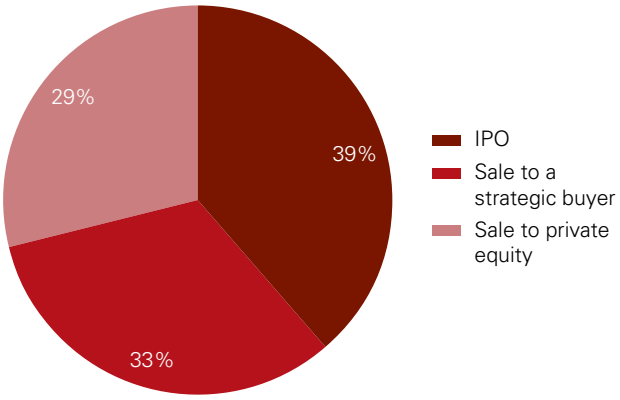
Shedding more light on the drivers of this cross-border activity, several respondents point to established relationships as the primary factor drawing Turkish acquirers to the CEE market. The attractiveness of the CEE region can likewise be explained by ongoing privatisations spanning the CEE in Poland, the Czech Republic and Russia, for example, which will provide foreign investors with attractive investment opportunities.

Section 2: Strategy and financing

Which targets do you expect to be most attractive to acquirers in Turkey over the next 12 months?



Which exit strategy do you expect to be most common in Turkey over the next 12 months?



There is no clear consensus on which targets will be most attractive in Turkey this year, but family businesses and government backed entities emerge as the top two: family businesses due to the sheer volume, as many respondents point out that these businesses are the heart of the Turkish economy.

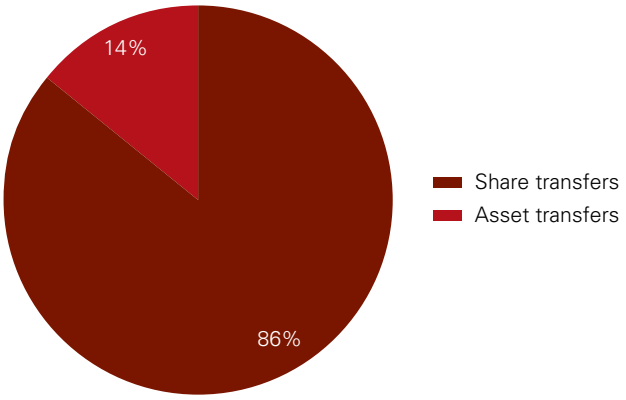
Meanwhile, given the extensive privatisation program currently underway it can come as little surprise that 28% of respondents expect government-backed entities to be among the most attractive targets this year, as sweeping privatisation efforts in Turkey have put on the table a host of assets ranging from electricity generators to sea ports and toll roads.

The re-emergence of private equity as a strong buyer is a clear sign that the credit markets are well and truly on the road to recovery, allowing PE funds to raise leverage for LBOs.

There is no clear consensus as to the predominant exit route favoured by investors in Turkey this year. The largest percentage of respondents (39%) believe IPOs will be most common, but sales to strategic or private equity buyers are also contenders for roughly one-third of respondents each.

On this point, respondents acknowledge that each exit strategy has its own uniquely attractive features. IPOs appear to be the most contentious issue, as some respondents believe the valuation environment is ripe for new listings whereas others believe it will be some time before valuations are favourable again. Respondents also say that strategic buyers are most appealing because exits via trade sales allow room for synergies, specifically increasing market share and cutting costs.

Do you expect most mergers in 2011 in Turkey to take the form of asset transfers or share transfers?



Share transfers are the transaction type of choice for 86% of respondents, due largely to what many respondents describe as lower tax and lower risk. An investment banker based in Turkey explains:

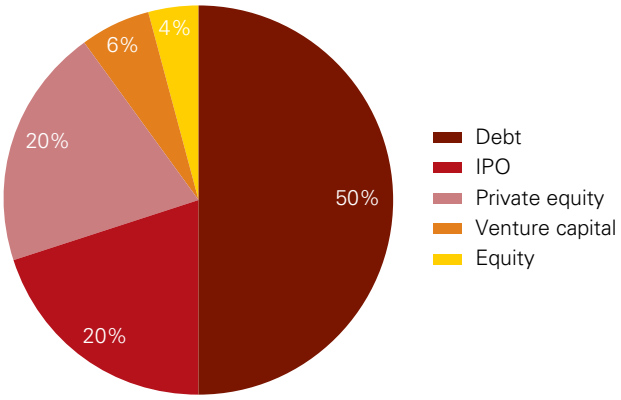
"Local investors prefer not to sell via asset transfers, as there are additional taxes that they have to pay on these deals."

Share deal vs asset deal

"There are wide tax exemptions in case of a share deal transaction (i.e. in terms of capital gains and VAT) which make it a much more favourable exit structure for the sellers in Turkey. There are other financial differences; for example, in a share deal, sellers can get the cash out of the deal immediately whereas in an asset deal the sellers have to consider additional steps to take the cash out of the entity which may also give rise to additional tax issues. Although an asset deal may be preferable for a buyer for certain tax aspects (e.g. depreciation of purchase price and goodwill paid on the acquisition; ability to ring-fence against historical tax liabilities of the old entities, etc.) such benefits are usually reduced due to increased price expectations of the sellers in an asset deal scenario to compensate against their additional tax leakage (compared to a share deal) and the increased administrative burden of transferring the assets, employees business contracts, etc. on an individual basis."

Ayhan Üstün
Partner, Head of M&A Tax
KPMG Turkey

Which M&A financing source do you expect to be most common in Turkey over the next 12 months?



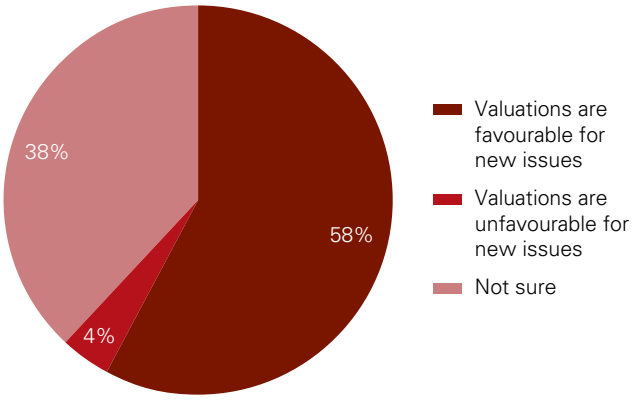
Debt emerges as the top financing source for respondents, many of whom describe Turkish banks as liquid, stable and secure. Turkey's lending environment is indeed markedly more solid than that of other regions, thanks to a series of reforms aimed at strengthening domestic banks inspired by the country's 2001 financial crisis. Among the reforms undertaken were higher capital adequacy requirements, which, interestingly, are now key components of post-financial crisis reforms in Western Europe and the US.

When it comes to bank debt, corporate and investment banker respondents alike tend to describe this financing source as most dependable and least risky. One executive explains that banks themselves are widely considered "stronger and safer" than other finance houses.

And yet looking at private equity practitioners' feedback, a recurring theme is that while banks tend to be a more traditional financing source, the sheer availability of private equity funding could tip the scales. One respondent simply states that in the upcoming 12 months, private equity funding "will always be available" while another goes into more detail, stating: "Private equity will be the most widely used source for M&A financing because these firms are more aggressively targeting new companies over the next one to three years."

"Turkish banks are financially very strong, and they have lots of cash on hand which they distribute as credits. The credit rate is also very low, so local and the foreign companies can easily finance their acquisitions from Turkish bank financing."

How would you describe the current Turkish IPO market?

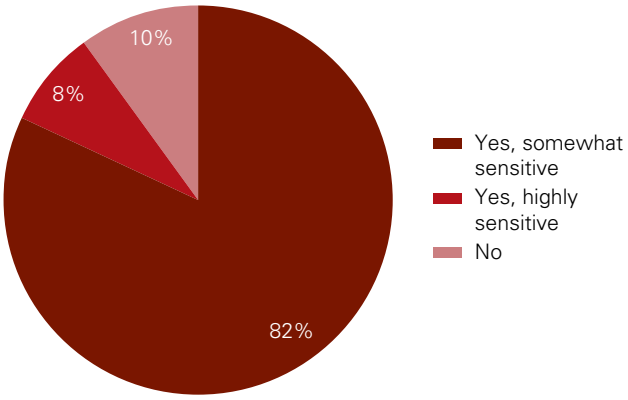


The majority of respondents (58%) are optimistic that the IPO environment currently favours new issuers, and only a small slice of respondents believe otherwise. This is, as many respondents point out, a stark contrast to other public markets where many public listings including private equity exits have been cancelled or delayed in response to poor investor sentiment and economic uncertainty. "Unlike the Western European market, the Turkish market is performing better. IPOs are getting a good response from investors," says one respondent.

One of the most important developments to watch in 2011 is the government's push for new listings on the Istanbul Stock Exchange (ISE) – according to mergermarket intelligence published in the first quarter of 2011, Yimpas, the Turkish supermarket chain, is being encouraged by Turkey's Capital Markets Board (CMB) to list on the ISE, as the company is an example of a publicly-owned but unlisted company backed by hundreds and potentially thousands of anonymous investors. The government's push for an IPO – as opposed to a sale to strategic buyers – is in line with its goal of creating a more transparent business environment and clearing the grey areas behind many Turkish companies' ownership structures.

"We haven't seen the level of capital market activity that we saw before the crisis and I think it might be too early to predict the boom in IPO's – outside of Turkey in the foreign markets, there is only one Turkish company listed currently on New York Stock Exchange (NYSE)."

Do you expect the lending environment in Turkey to be sensitive to macro developments (e.g. sovereign debt crises, economic indicators) in the next 12 months?

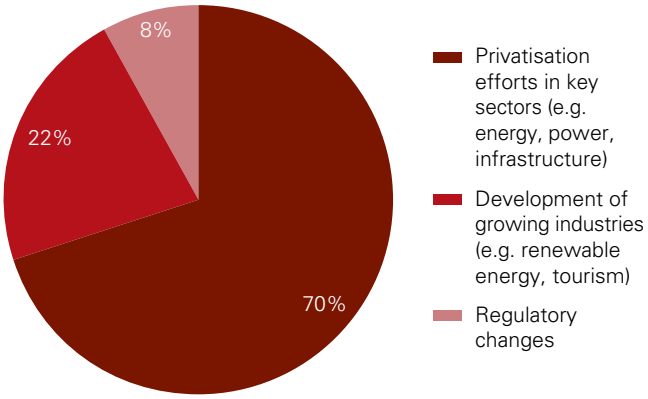


In total, 82% of respondents agree that lending activity in Turkey will be influenced by outside developments, but at the same time most of these respondents do not believe the influence will be a powerful one. One-tenth of respondents believe Turkey's lending environment will not be at all sensitive to macroeconomic developments, and this same group consistently points out that Turkish banks went into the global financial crisis in a much stronger position than their European peers. One respondent explains: "Turkey had its own financial crisis in 2001. Banks were restructured then, and now have high capital adequacy ratios and liquidity for investments."

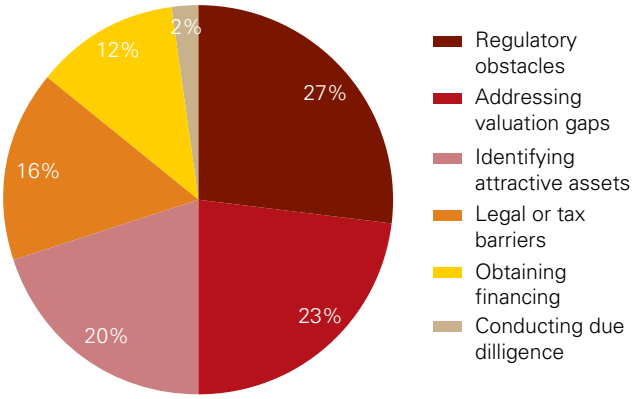
"Turkish banks are efficient and able to sense changes easily, both inside and outside the country's economy. They are capable of finding alternatives for the unexpected."

Section 3: Challenges, opportunities and deal drivers

Which of the following factors do you expect to have the most significant impact on M&A deal volume in Turkey over the next 12 months?



Which of the following do you think will present the most significant obstacle to M&A transactions in Turkey over the next 12 months?



The large majority of respondents (70%) believe deal volume in Turkey will be most heavily influenced by the government's extensive privatisation programme – even more so than industry specific growth (22%) and regulatory developments (8%).

While regulatory reforms do not top respondents' list of deal drivers, it should be noted that many respondents do indeed foresee regulatory reforms as having a positive influence on deal flow in the longer term as the climate becomes more open to foreign investors. One investment banker explains: "Regulations have been eased to pull in more deals."

Respondents on the whole are somewhat divided when it comes to the specific challenges affecting the M&A market this year. The largest portion of respondents (27%) expects regulatory obstacles to pose the most significant challenge to deals this year, while 23% expect the same of valuation gaps. One-fifth of respondents believe identifying attractive assets in the first place will be the most difficult part of the process, while a close 16% are most concerned with legal or tax barriers.

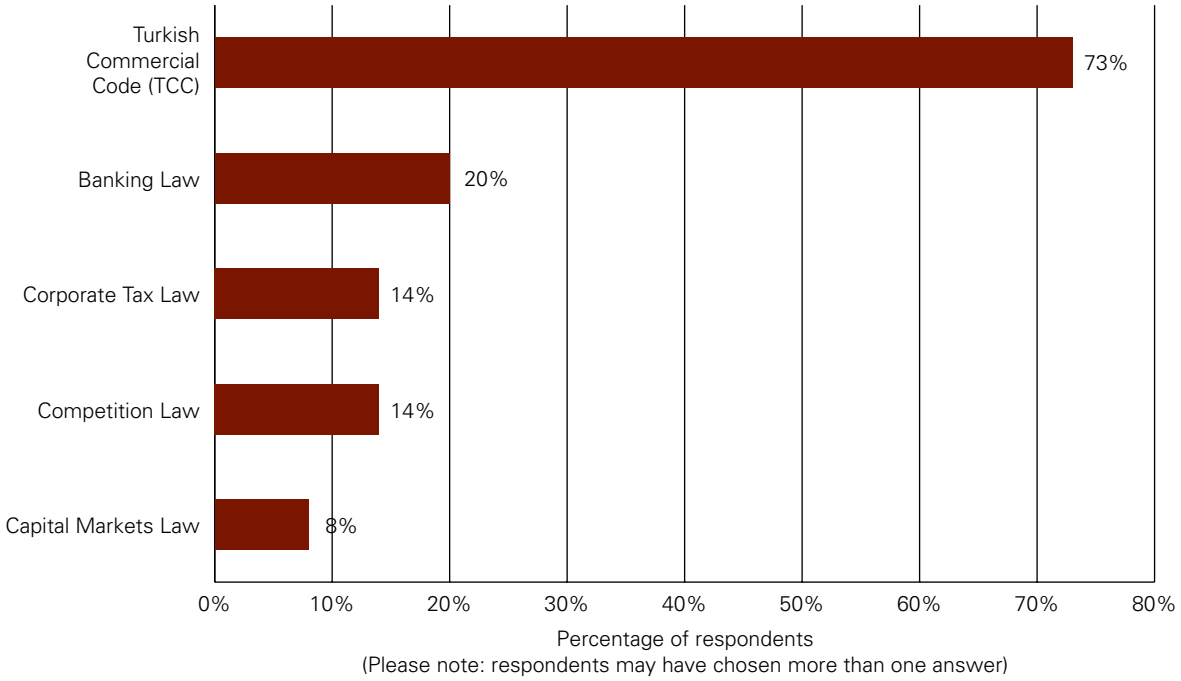
The perceived challenges of doing deals in Turkey are noticeably different from the challenges plaguing dealmakers in most other regions. Financing is still somewhat of a hurdle in North America and Europe, particularly for the small to mid-market, and yet only 12% of respondents to this survey consider financing a major obstacle to closing deals in Turkey. This is particularly interesting given that most Turkish businesses fall in that small to mid-market category.

Regulatory obstacles and valuation gaps present the greatest challenge to 27% and 23% of respondents, respectively, while a close one-fifth find identifying attractive assets most difficult.

This likely reflects the lack of transparency in Turkey when it comes to companies' financial performance, corporate governance and ownership structure. These problems should be remedied in part by amendments to the TCC, so it will be interesting to see whether the years ahead bring a shift in respondents' sentiment on this point.

Section 4: Regulatory developments

Which regulatory areas in Turkey do you believe will see significant reform over the next 12 to 36 months? (Please select all that apply)

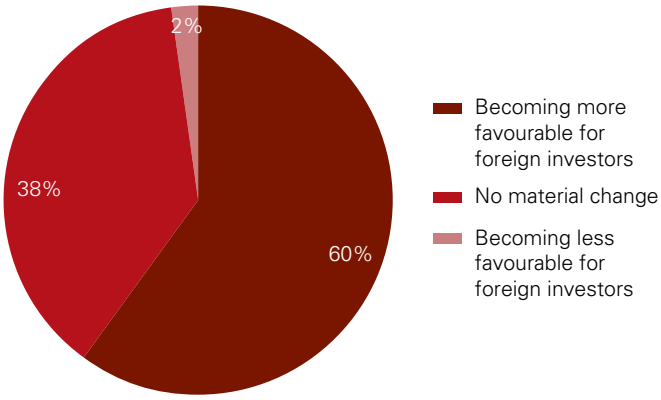


Regulatory reforms affecting Turkey's business environment will be spearheaded by sweeping structural changes to the Turkish Commercial Code (TCC) effective July 2012. These changes will cut to the core of Turkey's business environment, covering everything from transparency issues to financial reporting standards to corporate governance practices. Thus, it comes as little surprise that roughly three-quarters of respondents believe changes to the TCC over the next 12 to 36 months will overshadow regulatory reforms in all other areas, including Banking, Corporate Tax, Competition and Capital Markets Laws.

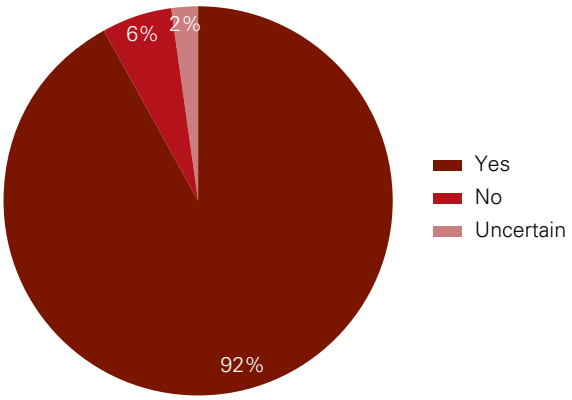
"Turkish companies are adapting to changes in the global economic and business environment by making strategic partnerships and strengthening foreign economic relations. This is the major motivation behind the preparation of the New TCC. Major changes include IFRS compliance, statutory audit and online Board of Directors (BOD) and General Assembly Meetings."

Murat Alsan
Partner, Head of Audit,
KPMG Turkey

How would you describe the current regulatory environment for cross-border M&A transactions in Turkey?



Do you expect pending changes to the Turkish Commercial Code to impact the M&A market or overall investor sentiment in Turkey?



Reflecting just how transformative TCC reforms could be, the overwhelming majority of respondents (92%) expect upcoming amendments to directly impact investor sentiment in general and M&A activity in particular.

Respondents' bullish outlook on this issue is supported by the targeted nature of TCC reforms, which seek to align Turkey's business environment with those of its Western peers. For example, in what is arguably one of the most important changes under the revised TCC, Turkish companies will adhere to international financial reporting standards (IFRS) and will be audited regularly in accordance with the International Standards of Accounting (ISA). TCC revisions will also allow for significantly more clarity in regards to a company's official type and composition. The introduction of a new trade code will require businesses to define themselves as "Incorporated" or "Limited" with a registered, physical address, while also defining the legal status of family owned businesses.

Other aspects of the revised TCC create a more transparent system for foreign and domestic investors alike. The TCC addresses potential investors' concerns by requiring all listed companies to form a Committee for Early Inspection of Risks to identify risks at an early stage, leaving less room for apprehension on the part of investors. Increased transparency will also come from rules requiring all capital stock companies to have a website containing all relevant financial information for shareholders, including annual and interim financial statements and audit reports.

Revisions even extend beyond the technical, financial aspects of a company's make-up to address issues related to corporate governance and integrity. Harsh penalties for making false statements about a company's registration or enrolment, for example, are coupled with new rules dictating that at least half of a company's board members hold a college degree.

Given the scope of new TCC amendments, cross-border M&A opportunities in Turkey may indeed become increasingly attractive to foreign investors. Most respondents (60%) believe regulations are increasingly working in favour of international deal flow, which reflects not only TCC changes but also

the host of reforms taking place outside of the country. These include Solvency II and Basel III, which will govern the insurance and banking industries, respectively, across the European Union (EU).

Meanwhile, regulatory changes in individual sectors – most notably Energy and Healthcare – promise to affect M&A on a more granular level. For renewable energy companies, a new tariff structure under The Law Amending the Law on Utilization of Renewable Energy Sources will likely stimulate investment activity by clearly defining feed-in tariffs, which up until now have been somewhat of a grey area. Priced in US currency, the new regulation guarantees payments per-kilowatt-hour of 7.3 USD/cents for wind and hydroelectric power; 10.5 USD/cents for geothermal energy; 13.3 USD/cents for solar, waste or biomass. This allows for greater clarity surrounding valuations as investors will no longer feel blindfolded when analysing potential target and renewable energy assets.

Healthcare companies may undergo consolidation for entirely different reasons. Government enforced price reductions on pharmaceutical goods – aimed at cutting the government's own healthcare expenditure – will put cost pressures on generics companies, which dominate the Turkish pharmaceuticals market. The biggest concern at the moment is still falling revenues, which have put pressure on margins and exerted needs for cost cutting. We note however that some pharmaceutical companies have implemented structural changes to their businesses and have successfully increased profits thought this period of change. 2011 has seen a number of deal announcements in the sector including Bilim İlaç, Biofarma and Dr. F. Frik.

All of the regulatory changes taking place in Turkey must be viewed against the backdrop of the government's rigorous efforts to improve the country's business environment, led by its continued privatisation programme, which aims to liberalize the Turkish economy from state control. The government is also proactively pushing for more public listings on the Istanbul Stock Exchange (ISE), while Turkey's Capital Markets Board is raising the bar for qualified brokerage firms (in terms of qualifications for registering and operating in the country) and also focusing on educating consumers on financial products as part of a financial literacy program. While these are not necessarily transformative or structural changes, they indicate that the market will be more accessible, transparent and closely monitored.

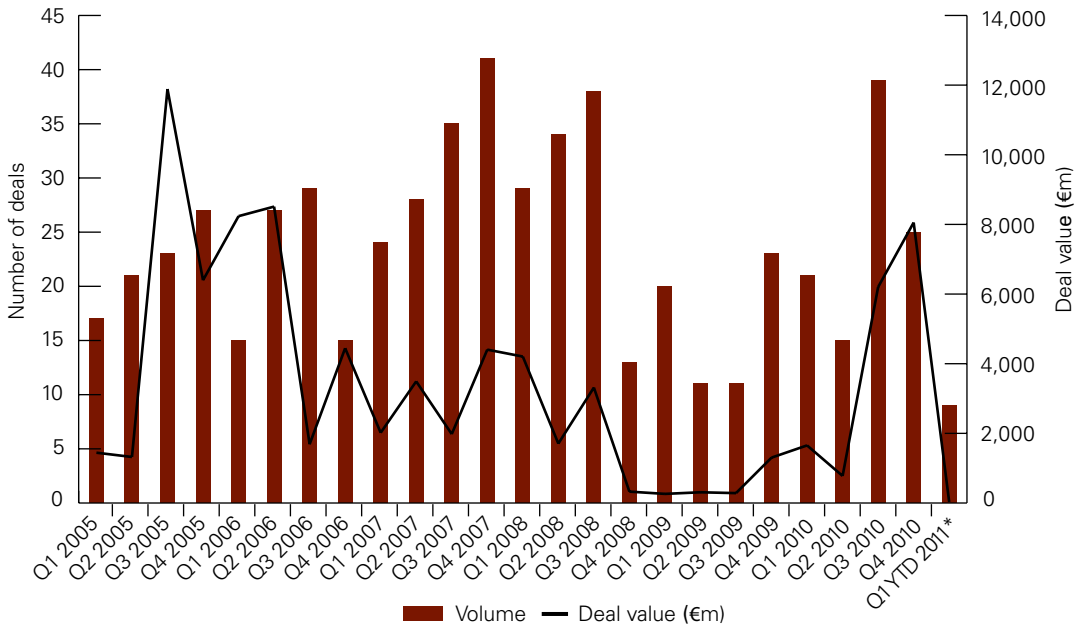
"In the New TCC, the financial statements of all joint stock and limited liability companies should be prepared in accordance with TMS, a Turkish translation of IFRS, starting from 1 January 2013 and will be continuously updated in line with the changes in IFRS. This change will increase the competitive strength of Turkish enterprises as they will speak the same language of the other enterprises in the world, and will increase the acceptability and validity of the financial statements of Turkish enterprises in international markets."

Murat Alsan,
Partner, Head of Audit,
KPMG Turkey

Features

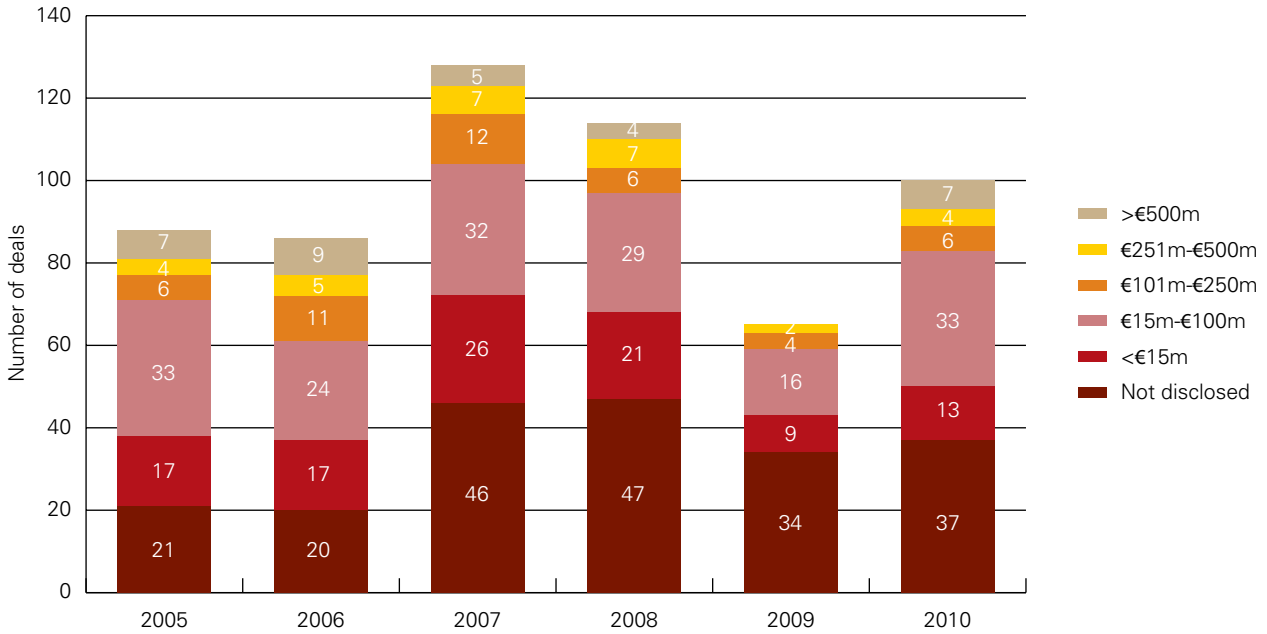
M&A Market trends

Overall M&A trends



* Refers to the period between 1 January 2011 and 14 February 2011

M&A Deal size split by volume



Top 10 Turkish M&A deals, 2010

Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value (€m)
Nov-10	C	Turkiye Garanti Bankası AS (24.9% Stake)	Financial Services	Turkey	Banco Bilbao Vizcaya Argentaria S.A	Spain	Dogus Group; GE Araştırma ve Musavirlik Ltd Sti	USA	4,200
Aug-10	P	Bogazici Elektrik Dagitim AS	Energy, Mining & Utilities	Turkey	Is-Kaya Insaat Sanayi ve Ticaret Ltd Sirketi; MMEKA Makine Ithalat Pazarlama ve Ticaret AS	Turkey	Republic of Turkey Prime Ministry Privatisation Administration (OIB)	Turkey	2,261
Dec-10	C	Toroslar Elektrik Dagitim A.S.	Energy, Mining & Utilities	Turkey	Yildizlar SSS Holding	Turkey	Republic of Turkey Prime Ministry Privatisation Administration (OIB)	Turkey	1,565
Aug-10	P	Gediz Elektrik Dagitim AS	Energy, Mining & Utilities	Turkey	Is-Kaya Insaat Sanayi ve Ticaret Ltd Sirketi; MMEKA Makine Ithalat Pazarlama ve Ticaret AS	Turkey	Republic of Turkey Prime Ministry Privatisation Administration (OIB)	Turkey	1,452
Dec-10	P	Fortis Bank AS	Financial Services	Turkey	TEB Bank	Turkey			1,219
Aug-10	P	Baskent Dogalgaz Dagitim AS (80% Stake)	Energy, Mining & Utilities	Turkey	MMEKA Makine Ithalat Pazarlama ve Ticaret AS	Turkey	Republic of Turkey Prime Ministry Privatisation Administration (OIB)	Turkey	944
Feb-10	C	Uludag Elektrik Dagitim AS	Energy, Mining & Utilities	Turkey	Limak Holding AS	Turkey	Republic of Turkey Prime Ministry Privatisation Administration (OIB)	Turkey	695
Oct-10	P	Petrol Ofisi AS (54.14% Stake)	Energy, Mining & Utilities	Turkey	OMV AG	Austria	Dogan Sirketler Grubu Holding AS	Turkey	497
Aug-10	P	Trakya Elektrik Dagitim AS	Energy, Mining & Utilities	Turkey	Aksa Elektrik Perakende Satis AS	Turkey	Republic of Turkey Prime Ministry Privatisation Administration (OIB)	Turkey	470
Apr-10	C	TURKON-MNG Electricity Generation and Trading Co. Inc	Energy, Mining & Utilities	Turkey	Energo - PRO a.s.	Czech Republic	Turkon Holding AS; MNG Holding AS	Turkey	288

C = Complete; P = Pending

The comprehensive changes taking shape in Turkey's regulatory environment will only further contribute to what is already a buoyant M&A market. Apart from depressed deal values and volumes starting in Q4 2008 and lasting for the better part of 2009, Turkey's M&A market proved resilient through the worst of the financial crisis. In fact, after a predictable drop in deal volume – 2009 saw just 65 deals, down from 114 in the year prior – Turkish M&A bounced back in 2010 with a 35% increase in deal volume and a remarkable 87% increase in value in 2010, with 100 deals valued at €16.7bn.

Private equity performance was also quite strong in 2010, with 11 deals worth €411m up from nine deals worth €244m the previous year. And in what can be read as a positive sign for the valuation climate and a watermark for overall investor sentiment, exit activity, which literally froze from Q4 2008 to Q1 2010, was revived in Q2 2010 when Turkven Private Equity and Advent International sold a 71.5% stake in portfolio company Roma Plastik, valued at approximately €47m, to foreign trade buyer FRITZ EGGER GmbH.

Turkey's strength against most other regions can be attributed to a variety of factors, not the least of which is the fact that the country's own financial crisis in 2001 left its banks armed with high capital adequacy requirements and conservative lending practices. The complex financial instruments responsible for other regions' financial crises have likewise been largely absent from the Turkish market. But perhaps the most important contributor to Turkey's M&A landscape is the implementation of a massive privatisation programme, which aims to scale back government involvement in backbone sectors including Energy and Infrastructure.

Privatisations and M&A

Turkey's privatisation programme, which aims to scale back government involvement in backbone sectors including Energy and Infrastructure, has almost singlehandedly propelled annual domestic deal value past its previous record of €8.4bn in 2006 to €10.2bn in 2010.

Indeed, one of the most notable features of recent asset sales has been the predominance of domestic buyers, particularly family owned conglomerates. MMEKA Makine has been especially aggressive in this respect, having spent approximately €4.7bn on buying up privatised assets in August and September of 2010 alone. In the largest privatisation of 2010, conglomerate MMEKA Makine Ithalat Pazarlama ve Ticaret AS and construction company Is-Kaya Insaat Sanayi ve Ticaret Limited Sirketi together acquired Bogazici Elektrik Dagitim AS from the OIB for approximately €2.3bn in August. One month earlier, this same consortium won the auction for another electricity distribution asset, Gediz Elektrik Dagitim AS, with a winning bid of approximately €1.5bn.

Another Turkish name at the forefront of these auctions is mining and construction conglomerate Yildizlar SSS Holding, meanwhile, supplemented an already-impressive list of acquisitions for the year with its €1.6bn purchase of Toroslar Elektrik Dagitim, also an energy distributer sold off by the OIB.

The competitive auction processes preceding these deals, coupled with the high prices buyers are willing to pay, are also notable. The auction for Toroslar Elektrik, for example, attracted the likes of several high profile bidders including AYEN Energy and Enerjisa, a joint venture between Turkey-based Sabanci and Austria-based Verbund, both of which placed bids above US$2bn. These competitive bidding wars extend into the lower end of the market as well, where deals come in below the US$1bn mark.* In September of 2010, for example, Turkish conglomerate Limak Holding won the auction for Iskenderun Port in Turkey with a bid of US$372m, which more than quadruples the US$80m bid submitted by Turkish bidder Akfen and the Port of Singapore Authority (PSA) during a previous attempt to privatize the port in 2005.

Privatisations will continue to be a key driver of Turkish M&A activity going forward, with prospective state divestments including additional power generation assets, Istanbul Ferries, the Turkish lottery, and the government's stake in Turkish Airlines, among others. This could have implications for the public markets as well, as reports published in early 2011 indicated that The Turkish Government could look to the Istanbul Stock Exchange to privatise state-owned stakes in Turkish Airlines, Petkim, Halkbank and Turk Telekom, which already have shares trading on the exchange.

The predominance of domestic buyers in the privatisation programme is solidified with every new auction process, but foreign buyers are increasingly willing and able to participate. One asset sale that promises to attract a fair share of interest is the privatisation of Turkish ferry operator IDO Istanbul Fast Ferries (Istanbul Deniz Otobüsleri). The list of potential bidders, still growing as this publication goes to print, includes one consortium involving Swedish shipping company Stena AB and US-based private equity firm Kohlberg Kravis Robers & Co (KKR), and another involving Greece-based Maritime Company of Lesvosand with the Turkish private equity firm Rhea Girisim Sermayesi Yatirim Ortakligi AS.

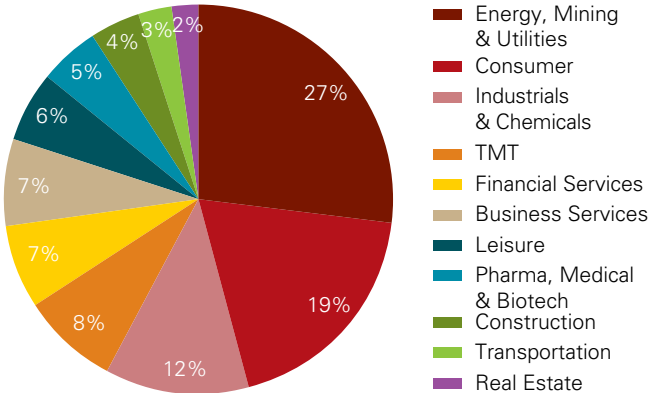
The calibre of the firms entering the market and the sheer size of the deals witnessed in 2010 make clear that large-cap deal flow will remain a fixture of the Turkish M&A landscape for the foreseeable future. That said, however, deals of this magnitude are exceptional and the broader M&A landscape will likely be populated by small to mid-market transactions. Looking at the results of this survey, 43% of respondents expect most Turkish M&A deals in the next 12 months to be valued at approximately €51m to €100m, and indeed most deals in the Turkish M&A market take place on this range and since 2005 have accounted for more than 75% of all deals with disclosed values. A similar jump in deal volume in the smaller deal size range – deals between €15m and €100m in value more than doubled in 2010 against 2009 – illustrates quite clearly that the pick up in M&A is not limited to large scale privatisations.

*Original bids submitted in US dollars.

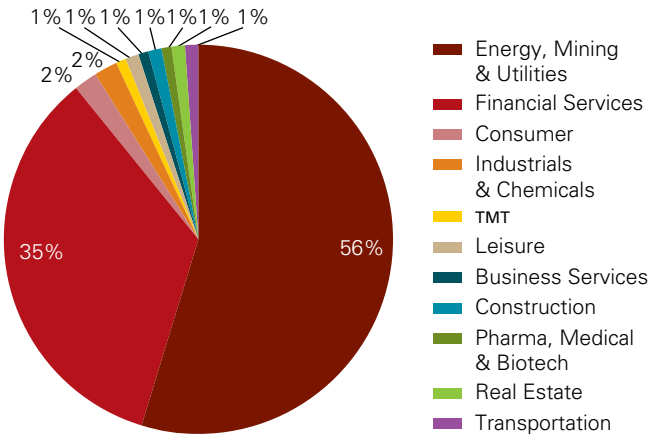
Sector highlights

The size and scope of the Turkish government's privatisation programme is reflected in 2010's sector specific M&A trends, which show Energy accounting for 56% of aggregate deal value for the year and 27% of volume. Unlike deal value, which is also highly concentrated in the Financial Services industry thanks to massive cross-border deals, volume is more evenly scattered across a range of sectors including Consumer, Industrials, TMT and Leisure. This section will provide a snapshot of M&A in these and other industry sectors and will highlight the unique factors driving deals in the current market.

M&A deal split by sector: volume



M&A deal split by sector: value



Spotlight: Energy

While the high value of Energy deals announced in 2010 is indeed heavily influenced by recent privatisations, the broader Energy industry, which encompasses everything from renewable energy to oil, is generating a steady stream of deals in its own right.

With Turkey aiming for 30% of its power supply to come from renewable sources by 2023, rapid consolidation in the renewable space is on the horizon. In fact, Turkey's renewable energy industry witnessed a fair share of consolidation at the same time the government's extensive privatisation auctions were underway. Notable deals include Turkish conglomerate Boydak Holding's acquisition of a 50% stake in Nisan Elektromekanik Enerji, the Turkish hydroelectric plants constructor and operator with eleven hydroelectric projects in the northern Turkey, from local conglomerate Atac Insaat ve Sanayi in August of 2010. This deal was followed closely by private energy and infrastructure investor Hamza Dogan's acquisition of an 80% stake in Dogal Elektrik Uretim, a hydroelectric plant operator, from local player Gama Enerji. Additional examples include the mergers of renewable energy and natural resources company Essentium Grupo and gas producer Enerco Group.

Factoring in new regulatory developments that create a more favourable tariff structure for companies industry-wide, consolidation among Turkish renewable businesses promises to keep up a healthy pace through 2011 and beyond. Indeed, the Amended RES Law promises to promote renewable energy investment by incentivizing investors with clearer and more attractive feed-in tariffs, which guarantee payment per kilowatt-hour of generated energy and allow investors to have more clarity when it comes to asset valuations, revenue forecasts and growth prospects. The upcoming privatisation in generation assets and of IGDAŞ will add considerable deal volume and value to 2011.

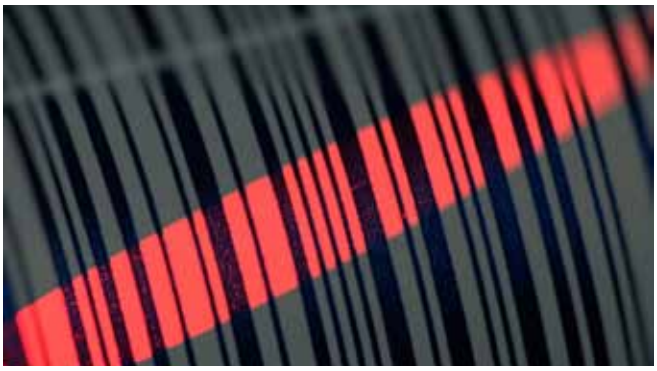
Spotlight: Financial services

Focusing on the three main components of the Financial Services sector – banking, insurance and brokerage – shows that industry-wide deals are coming largely from consolidation among large banks and foreign acquirer's appetite for growth in the Turkish market.

The largest deal of 2010 saw the Spanish banking giant Banco Bilbao Vizcaya Argentaria SA (BBVA) acquire a 24.9% stake in Turkey's Garanti Bank (Turkiye Garanti Bankası AS) for €4.2bn. Banking consolidation also took place on a domestic level with the €1.2bn merger of TEB Bank and Fortis Bank under the TEB Bank name. After BNP Paribas' acquisition of Fortis Bank Belgium, BNP Paribas became the owner of Fortis Bank Turkey with 75% shareholding. Having also 50% ownership in TEB Bank, BNP Paribas decided to merge these banks under the TEB Bank name which created the ninth largest bank in Turkey by assets under management with 630 branches, three million individual clients and approximately 500,000 small business and corporate clients. Other large banking sector deals may be on the horizon.

In the insurance sector, meanwhile, Asian buyers are showing their interest in the Turkish market. Sompo Japan Insurance, the insurance subsidiary of NKSJ Holdings, in 2010 agreed to acquire Turkish financial services group Fiba Sigorta AS for a consideration of €253.2m funded by its own cash reserves.

Financial Services deals will continue to make significant contributions to M&A volume and value in 2011. There is already a healthy pipeline of potential deals, including the sale of Deniz Emeklilik, in line with parent company Dexia's strategy of shedding non-core operations. Other deals expected to surface in 2011 are the sales of Yapi Kredi Sigorta and Emeklilik, both of which had been pulled from the market in the wake of 2008 market volatility.



Spotlight: Consumer

Consumer sector M&A accounts for nearly one-fifth of all deals announced in 2010 with a total of 19 deals worth €410m. A small sampling of recent transactions in this space shows strong investor interest in a broad range of industries that depend on Turkey's favourable demographics. Indeed, the country's young population is generating steady demand for consumer products like apparel and cosmetics, and this in turn allows for strong investor interest in consumer-facing businesses and the companies on which they depend.

In the third quarter of 2010, for example, Turkish textile firm Aydinli, added to its already-impressive portfolio of apparel brands with its €9m acquisition of Cacharel Homme, the menswear division of French fashion company Cacharel. Foreign financial buyer Dabur International Limited likewise invested €53m in a group of three Turkish health and beauty product companies, Hobi Kozmetik, Zeki Plastik and Ra Pazarlama. Turkish financial buyers, meanwhile, appeared in the minority stake investment in Hunca Kozmetik, a cosmetics company serving Turkey, Balkans, and Middle East. Consumer industry deals promise to remain a solid fixture in the M&A landscape moving into 2011.

The year commenced on a high note for the sector with the completion of Diageo's acquisition of Mey Içkı, for €1.5bn. In particular, foreign and local private equity firms are expressing an interest for businesses in this sector.

Spotlight: TMT

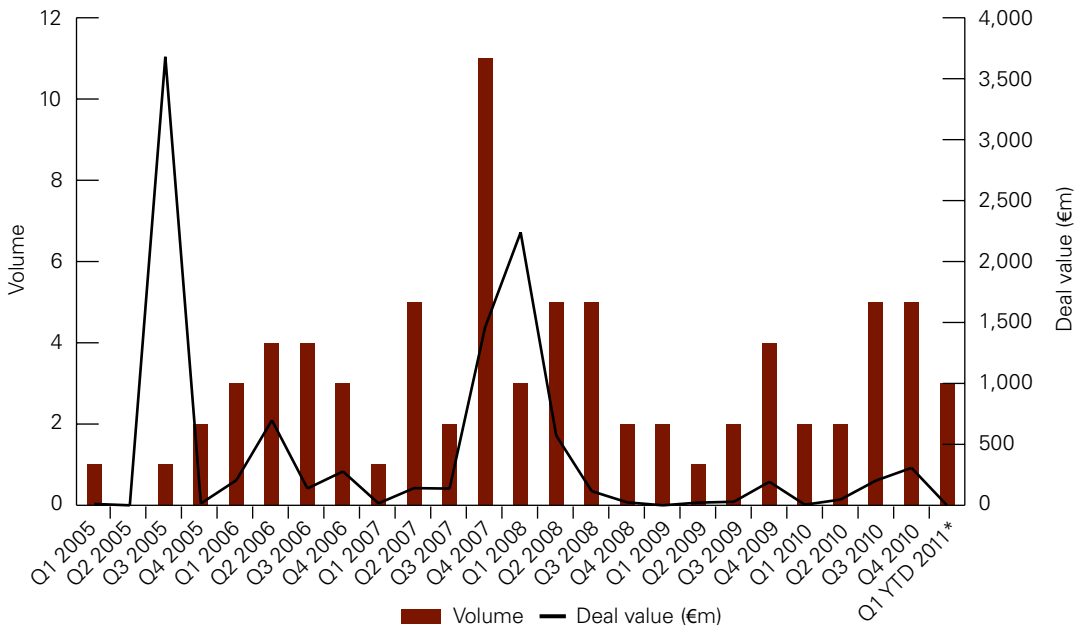
The same forces driving M&A in the Consumer sector are contributing to rapid growth in the Telecom, Media and Technology (TMT) space. Though the industry does not necessarily stand out against the rest as a hub for M&A deals, it does serve as a benchmark for Turkey's growth, which will hinge on new technologies such as WiMAX, IPTV and 3G, all of which continue to see rising demand from a young and increasingly technology-savvy population.

The most telling developments centre on Turkey's three major TMT players, which include Vodafone, Turkcell and Turk Telekom. UK-based telecom giant Vodafone announced that in the last three months of 2010, Vodafone Turkey's subscriber base increased by one million to 16.7 million, while data traffic increased by 155% and voice traffic increased by just over one-fifth (21%). Vodafone credited the Turkish market with boosting its telephone, data and other services revenues by 2.5% in the same period. Turk Telekom, meanwhile, is sharpening its focus on R&D as part of its "Technology for Customers" mission, which aims to develop a portfolio of innovative products and intellectual property, which should allow it to keep pace with its Western competitors. At the same time, the company continues to focus on growing its more traditional fixed-line operations overseas with a firestorm of cross-border buys in 2010 including the acquisition of Euroweb Romania SA's wholesale business and Invitel International Hungary Kft. For its part, Turkcell recently announced a groundbreaking Regional Cable Network (RCN) Project, which aims to position Instanbul as the world's newest Internet base. RCN will connect Turkey to the UAE, Saudi Arabia, Jordan and Syria, with a fiber optic cable line allowing for faster and easier internet traffic.

The rapid development of Turkey's TMT sector will require significant investments in its underlying technology developers, and the need for such investment is proving to be a key driver of M&A. One clear example of this can be found in US-based private equity firm The Invus Group's €7m investment in AirTies Kablosuz Iletisim ve Dis Ticaret, a Turkish wireless connectivity device developer. The investment will go toward the target's R&D efforts as it aims to aims to become a market leader in web based technologies.

Private equity

Private equity trend data



* Refers to the period between 1 January 2011 and 14 February 2011

An overview of sector-specific M&A highlights the importance of financial buyers to the Turkish M&A market. Private equity deal flow, which in 2010 accelerated rapidly after sitting somewhat still through the global financial crisis, is not at all limited to a single sector but instead targets the companies that underpin Turkey's rapid growth — buyout groups are especially keen to invest in companies that operate in or cater to the country's booming consumer market.

A prime example is Irish private equity firm Kerten, whose current investments in Turkey – including a 50% stake in Turkish tourism company House Hotel and a 30% stake in confectionary company Elit Cikolata – may soon be supplemented by a 50% stake investment in Turkish clothing retailer Bucuruk Tekstil, a deal that is thought to be sitting in the pipeline for 2011. The retail space also saw Turkish private equity firm Eurasia Capital Partners, Netherlands Development Finance Company (FMO) and the private equity-based Balkan Accession Fund join forces to acquire a 50% stake in children's apparel company Wenice Kids, in a deal valued at approximately €50m. The consortium also committed to investing roughly €74m into the business over the course of the next two years. Another UK based private equity firm, Ashmore Investment Management Limited, backed the management buyout of Nezih Kitap Kırtasiye San. Ve Tic., the Turkish bookstore chain. Firms' willingness to invest in these types of companies in Turkey is a stark contrast to other markets, for example the US, where chain stores and shopping-mall businesses are still considered highly sensitive to market volatility, and particularly unemployment and low consumer spending.

The exit market is equally lively: in what stands as the largest deal of 2011 so far, UK-based Diageo acquired Turkish spirits business Mey Icki for €1.5bn, marking an exit on behalf of US-based private equity firm TPG, which acquired the company for approximately €669m in 2006. In a smaller but still significant exit, Esas Holding AS, the Turkey based private equity firm, sold its 88% stake in film production company AFM Uluslararasi Film Produksiyon ve Ticaret to Mars Entertainment Group (owned by Actera Group) – a Turkish operator of movie theatres, restaurant chains, sports centres and coffees shops – for €93m.

Buyout and exit activity continues to trend upward through 2011 on an even larger scale. One of the largest deals in the pipeline at the moment falls in the media sector, with Yıldız Holding A.Ş. is reportedly partnering with US-based private equity fund Kohlberg Kravis Roberts (KKR) & Co. L.P. to submit a bid for Turkey's largest media group, Doğan Yayın Holding (DYH).

Top 10 Private Equity Buyouts & Exits, 2010

Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal type	Deal value (€m)
Oct-10	C	Nortel Networks Netas Telekomunikasyon A.S.	TMT	Turkey	OEP Rhea Turkey Tech BV	Netherlands	Nortel Networks Corporation	Canada	IBI	157
Nov-10	P	AFM Uluslararasi Film Produksiyon ve Ticaret A.S. (88.01% Stake)	Leisure	Turkey	Mars Entertainment Group	Turkey	Esas Holding AS	Turkey	Exit	93
Aug-10	P	Memorial Health Group (40% Stake)	Pharma, Medical & Biotech	Turkey	Argus Capital Partners; Qatar First Investment Bank	United Kingdom			IBI	90
Jul-10	C	AFM Uluslararasi Film Produksiyon ve Ticaret A.S. (88.01% Stake)	Leisure	Turkey	Esas Holding AS	Turkey	Eurasia Cinemas BV	Russia	IBI	65
Oct-10	C	Wenice Kids (50% Stake)	Consumer	Turkey	Eurasia Capital Partners, L.P.; Netherlands Development Finance Company (FMO); Balkan Accession Fund	Netherlands			IBI	50
Jun-10	C	Roma Plastik AS (71.5% Stake)	Construction	Turkey	FRITZ EGGER GmbH & Co	Austria	Advent International Corporation; Turkven Private Equity	USA	Exit	47
Sep-10	C	Tiryaki Agro (Undisclosed Stake)	Consumer	Turkey	Investcorp Gulf Opportunity Fund I	Bahrain			IBI	37
Jul-10	C	ITD - Iletisim Teknoloji Danısmanlık Ticaret AS; EST Elektronik Sanal Ticaret ve Bilisim Hizmetleri AS	Technology, Media & Telecoms	Turkey	Asseco South Eastern Europe SA	Poland	IS Private Equity Investment Trust; ITD Polska Sp. z o.	Poland	Exit	11
Nov-10	C	AirTies Kablosuz Iletisim ve Dis Ticaret A.S (Undisclosed Stake)	TMT	Turkey	The Invus Group, LLC	USA			IBI	7
Feb-10	C	House Apart (50% Stake)	Leisure	Turkey	Kerten	Ireland (Republic)	Czech Republic	Turkon Holding AS; MNG Holding AS	IBI	5

C = Complete; P = Pending

Inbound M&A in Turkey

Foreign interest in Turkey is highlighted quite sharply by the recent influx of international buyers, both strategic and financial. From 2005 to 2010, Turkey witnessed a total of 581 M&A transactions valued at approximately €84.2bn, more than three quarters of which represent inbound transactions amounting to 286 deals worth €53bn. Domestic buyers are now tipping the scales with their aggressive bids for privatised assets, but foreign buyers – both strategic and financial – continue to trickle into the Turkish market.

Not surprisingly, Energy and Financial Services deals have accounted for some of the largest cross-border transactions of 2010 to date, led by BBVA's purchase of a 24.9% stake, valued at €4.2bn, in Turkish banking group Turkiye Garanti Bankası AS. Garanti's parent companies GE Araştırma ve Musavirlik, a Turkish consultancy unit of General Electric (GE), and Dogus Holding AS, will retain stakes of 2.3% and 24.2%, respectively, but BBVA could gain full control of the target in five years' time.

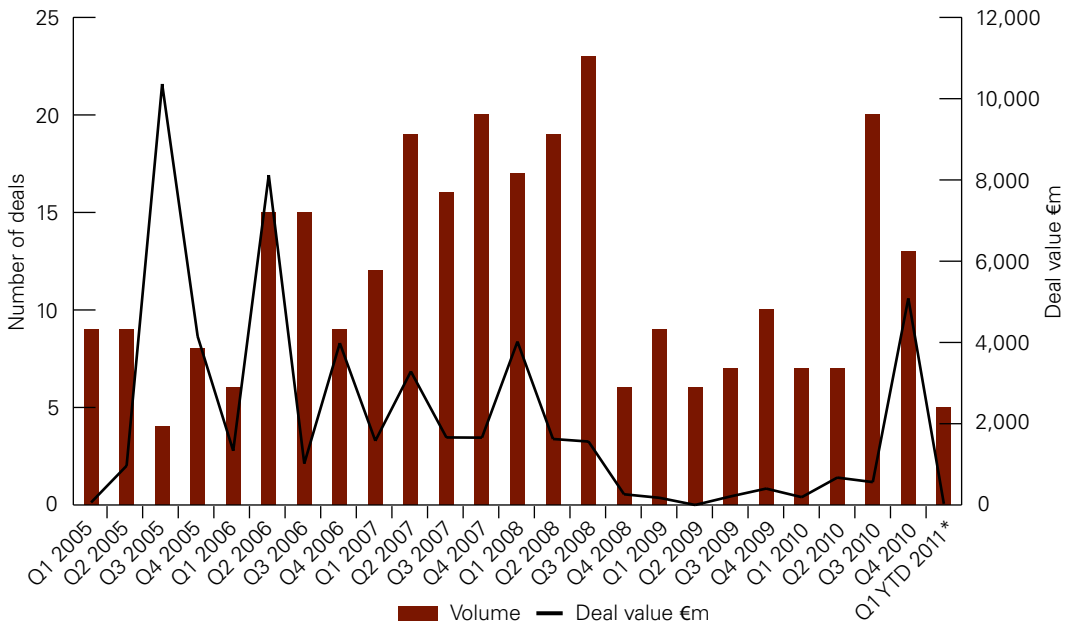
The same incentives fuelling the BBVA deal – a desire to gain hold on the rapidly growing Turkish market – are also attracting buyers from the Asia-Pacific region. This was certainly the case for Japanese insurer Sompo Japan Insurance's €253.2m acquisition of Fiba Sigorta AS, a diversified Turkish financial services group covering a broad range of services including banking, portfolio management, leasing and insurance. Similar to the BBVA deal, the acquisition aims to grow the overseas insurance business of NKSJ, more specifically with an eye to the non-life insurance market

Other international deals can be found in the Energy sector, where Austria-based oil giant OMV AG marked its fifth largest acquisition to date in 2010 with its purchase of the remaining 58.42% stake in Turkey's Petrol Ofisi, valued at €539m. Canada's TransAtlantic Petroleum Corporation also entered the Turkish market in 2010 with its €77m acquisition of Amity Oil International Pty Ltd.

The Healthcare activity is also somewhat of a bellwether for international appetite: in the medical subsector, for example, all five M&A deals announced in 2010 were inbound cross-border transactions. Some of the most notable activity in the space has come from international private equity houses, with Argus Capital Partners, the UK-based private equity firm, partnering with Qatar First Investment Bank in 2010 to acquire a 40% stake in Turkish based hospital operator Memorial Health Group, for a minimum consideration of €90m. This transaction mirrors other private equity-based transaction announced in 2009, when US-based private equity firm The Carlyle Group agreed to acquire a 40% stake valued at €68m in Medical Park Hospital Group and ADM Capitals 2011 invested in Universal Hospital Group.

The breakdown of cross-border and domestic M&A in Turkey over the past 12 months alone shows buyers – both foreign and domestic – entering the country market in full force. This will likely continue for some time given the perfect storm of factors attracting investors, not the least of which is a revised TCC. Turkey's place on the map will also remain crucial in driving the M&A market as buyers from the East continue to use Turkey as a thruway to foreign markets, while buyers from the West flock to Turkey's consumer base and its increasingly Western tastes and spending power. Added to all of this is a slow and steady recovery after historically volatile years in the financial markets. Indeed, as cash-rich corporates and financial buyers with uncommitted capital at their disposal re-enter the market, the coming months will continue to see a rise in deal value and volume that could very well exceed the levels witnessed during the thriving years before the financial crisis.

Inbound M&A trends



* Refers to the period between 1 January 2011 and 14 February 2011

Top 10 Inbound M&A Deals, 2010

Announced ddate	Status	Target company	Target sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value (€m)
Nov-10	C	Turkiye Garanti Bankası AS (24.9% Stake)	Financial Services	Turkey	Banco Bilbao Vizcaya Argentaria S.A	Spain	Dogus Group; GE Araştırma ve Musavirlik Ltd Sti	USA & Turkey	4,200
Oct-10	P	Petrol Ofisi AS (54.14% Stake)	Energy, Mining & Utilities	Turkey	OMV AG	Austria	Dogan Sirketler Grubu Holding AS	Turkey	497
Apr-10	C	TURKON-MNG Electricity Generation and Trading Co. Inc	Energy, Mining & Utilities	Turkey	Energo - PRO a.s.	Czech Republic	Turkon Holding AS; MNG Holding AS	Turkey	288
Jun-10	C	Fiba Sigorta AS	Financial Services	Turkey	Sompo Japan Insurance Inc	Japan	Fiba Holding AS	Turkey	253
Oct-10	C	Nortel Networks Netas Telekomunikasyon A.S.	Technology, Media & Telecoms	Turkey	OEP Rhea Turkey Tech BV	Netherlands	Nortel Networks Corporation	Canada	157
Dec-10	P	AES-Entek Elektik Uretim A.S. (49.62% Stake)	Energy, Mining & Utilities	Turkey	AES Corporation	USA	Aygaz AS	Turkey	104
Aug-10	P	Memorial Health Group (40% Stake)	Pharma, Medical & Biotech	Turkey	Argus Capital Partners; Qatar First Investment Bank	United Kingdom/Qatar			90
Jul-10	P	Amity Oil International Pty Ltd	Energy, Mining & Utilities	Turkey	TransAtlantic Petroleum Corporation	Canada	Zorlu Enerji	Turkey	77
Mar-10	C	Makine Kimya Nitro Nobel Kimya Sanayi A.S. (50% Stake)	Industrials & Chemicals	Turkey	Incitec Pivot Ltd	Australia	Altay Corporation; Murad Dural (Private Investor)	Turkey	68
Oct-10	C	Multinet Kurumsal Hizmetler	Business Services	Turkey	Groupe Cheque Dejeuner	France	Czech Republic	Turkon Holding AS; MNG Holding AS	65

C = Complete; P = Pending

About Transactions & Restructuring

Our business is focused on continually enhancing value for clients across the deal and economic cycle. We have specialists capable of helping clients right through from the conceptual thinking of buying a business to turning their business around in times of difficulty.

Fortunes, they say, favours the brave — seize the initiative and look for opportunities. KPMG's transaction and restructuring teams can help you here. Our firms' professionals offer ideas, experience, independence and commitment to enable your company to be in position to take advantage of the new environment and the growth opportunities Turkey currently presents.

Transaction Services

In these times evaluating potential transactions has never been more critical. The recent past may not be a good indicator of the future. Virtually all business plans now contain a 'hockey stick' forecast, and often major change is required in the first three years to deliver the full value of synergies.

Corporate Finance

KPMG's Corporate Finance Practice advises clients of every size - from blue-chip corporations, financial institutions and governments to medium-sized enterprises - on how to identify structure and execute all manner of public and private market transactions.

Restructuring

KPMG's Restructuring practice implements solutions in situations of stress and distress. We continue to have the biggest market share in this area. Working alongside lenders, stakeholders and all levels of management, our professionals plan and deliver restructuring actions that can provide improvements to cash flow, profit & loss and the corporate balance sheet.

Sector specialisation

As well as expert know-how from the Audit, Tax and Advisory business areas, highly specialized sector-specific knowledge is also essential to ensure that we are able to offer efficient services and increase the quality of the advice we provide. This is why we specialize in important business sectors. Our interdisciplinary approach offers our clients the opportunity to obtain solutions on individual issues from across the different business areas. This is one of the core strengths of KPMG's global teams.

As requirements become ever more complex, more and more clients are expressing a need for interdisciplinary industry expertise. Our specialists are at your disposal to answer any questions you may have. Our sectors of specialization are:

- Automotive
- Chemicals
- Communications & Media
- Consumer Goods and Retail
- Diversified Industrials
- Electronics & Software
- Energy & Natural Resources
- Financial Services
- Healthcare
- Pharmaceuticals
- Private Equity
- Property & Infrastructure
- Public Sector
- Transportation & Business Services
- Travel Leisure and Tourism

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 146 countries and have 140,000 people working in member firms around the world.

We work closely with our clients, helping them to mitigate risks and grasp opportunities. We play an important role in the capital markets, working to help a wide range of businesses respond to opportunities and challenges, improve their performance, and increase their value. We also work to strengthen trust and understanding between companies, investors, government, and the public.

Sustaining and enhancing the quality of this professional workforce is KPMG's primary objective. Wherever we operate we want our firms to be no less than the professional employers of choice.

In addition, the most important step to provide worldwide services better is the structuring of KPMG Europe. In October 2007, KPMG in Germany, KPMG in the UK and KPMG in Switzerland merged together to form KPMG Europe LLP. Alongside the ELLP firms in the UK, in Germany, Switzerland, KPMG in Spain and KPMG in Belgium joined KPMG Europe LLP in October 2008. As a result of the merger, KPMG Europe has become a giant with 80 centers within 5 countries.

As of 1 October 2009, KPMG Europe LLP expanded its borders by the participation of KPMG in Turkey, KPMG in Russia, KPMG in the Netherlands and Luxembourg to KPMG Europe LLP. The aim of the KPMG Europe foundation is to provide its clients with the global knowledge and local expertise and profession at the same time.

Accordingly, as a part of KPMG Europe being aligned with the global knowledge and expertise network under the same roof, we are ready to provide you with the local expertise and profession which we think is necessary for your domestic and cross border operations through the professionals who benefit from the global knowledge sharing.

On the local perspective, KPMG Turkey has been established in 1982. Today, KPMG Turkey employs more than 500 professional staff and continues its operations in three offices; İstanbul, İzmir and Ankara.

We are providing tailored services for our local and multi-national clients in various sectors. At KPMG Turkey, we focus to create sustainable, long-term economic growth, not just for our clients but for the broader society, too. We seek to be a good corporate citizen, making a real difference to the communities in which we operate.

About mergermarket

The following select notes pertain to data contained in the mergermarket database:

- Deals are included if the deal value is greater than or equal to €5m, except for some minority stake acquisitions.
- Where the deal value is undisclosed, deals are included on the basis of the reported or estimated deal value being greater than or equal to €5m.
- If the deal value is not disclosed and cannot be confirmed to be greater than or equal to €5m, mergermarket uses other indicators to determine inclusion, including but not limited to:
  - Number of employees of the target company - typically 100 employees although this number varies depending on geography;
  - Assets under management exceeding €200m for asset management firms;
  - Value of assets/deposits exceeding €50m million for banks.
- Where the stake acquired is less than 30%, or 10% where the target is based in Asia-Pacific, the deal will only be included if the deal value is at least:
  - €100m provided there is also evidence of an advisory mandate;
  - €500m in the absence of evidence of an advisory mandate.
- mergermarket does not include certain deal types, including but not limited to:
  - Joint ventures where the only asset contributed is cash;
  - Property/real estate transactions restricted to land, buildings, portfolios or sale and leaseback agreements;
  - Internal restructurings where the effective change of control does not meet inclusion criteria;
  - Equity carve-outs.

For a full overview, please visit: http://www.mergermarket.com/pdf/deal_criteria.pdf

Caveat:
Chapters 02 to 05 of this study are based on mergermarket, covering deals announced from 2005-2010. The consideration of individual transactions and their allocation to specific industry segments are based on our judgment and are thus subjective. We have not been able to extensively verify all data and cannot be held responsible for the absolute accuracy and completeness thereof. Analyses of different data sources and data sets may yield deviating results. The value data provided in the various charts represents the aggregate value of the deals for which a value was disclosed.

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