

FOREIGN MARKET CONSULTING



Danismanlik ve Tic. Ltd. Sti.

Attached is our latest monthly newsletter providing summaries of recent economic and political developments in Turkey. Commencing with this issue, we will also include a regular report on the **Ukraine**. We hope you will find this useful.

Beginning from May/June/July 2007 we also offer 2-day intensive **seminars on 'Business in Turkey'** presented at our offices in Istanbul. Please find further information **attached**.

We would welcome your feedback on our Newsletter and any other matters that you consider may improve or add to our newsletter service. Please also do not hesitate to contact us if you wish to learn about our wide range of available services.

If you know anyone else who would be interested in this free service, please forward this newsletter to them or alternatively, provide us with their e-mail address (to newsletter@fmconsulting.info), so that we can include them on our distribution list.

Best regards,

Your FMConsulting Team

Newsletter April 2007

Economy

Overview of Monthly Data

| YTL-Rates | 03.30.2007 | 04.30.2007 | Change in % |
|--------------|------------|------------|-------------|
| YTL pro Euro | 1.8472 | 1.8173 | -1.62 |
| YTL pro USD | 1.3868 | 1.3338 | -3.82 |

| | | | |
|-----------------------------|--------|--------|------|
| Stock exchange index | 43.661 | 44.984 | 3.03 |
|-----------------------------|--------|--------|------|

| Inflation in % | Monthly inflation | Annual inflation |
|-----------------|-------------------|------------------|
| Producer prices | 0.80 | 9.68 |
| Consumer prices | 1.21 | 10.72 |

Growth Rates

| Economic Growth Rates (%) | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|--------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Yearly |
| 2000 | 4.2 | 5.4 | 7.2 | 7.8 | 6.3 |
| 2001 | -3.3 | -12.3 | -9.1 | -12.3 | -9.5 |
| 2002 | 0.6 | 10.4 | 8.0 | 11.8 | 7.9 |
| 2003 | 7.4 | 3.6 | 5.6 | 7.2 | 5.9 |
| 2004 | 13.9 | 15.7 | 5.7 | 6.6 | 9.9 |
| 2005 | 7.5 | 4.7 | 8.0 | 10.02 | 7.6 |
| 2006 | 6.3 | 9.3 | 4.3 | 4.6 | 6.1 |

Inflow of foreign capital will amount to 25 billion USD

The inflow of foreign capital has grown rapidly since the beginning of the European Union negotiations in 2005. It is anticipated that this year there will be record growth. Foreign direct investment ("FDI") in 2007 has to date, already exceeded USD\$13 billion. This figure is estimated to rise to USD\$25-26 billion by the end of 2007. By comparison, the total FDI for 2006 was USD\$20 billion. A total of USD\$9.7 of foreign capital accrued in the first quarter of the year with the sale of a 20% share of Akbank to Citibank, (USD\$3.1 billion), the sale of 43% of Finansbank to the National Bank of Greece, (USD\$2.3) billion and the sale of 55% of Türk Telekom to Öger Telecom, (USD\$4.3) billion.

Real inflow of foreign direct investments (in USD\$ millions)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------------------|-------|-------|-------|-------|--------|
| Global direct investments | 1.137 | 1.752 | 2.883 | 9.801 | 20.168 |
| Global direct capital | 1.137 | 754 | 1.540 | 7.960 | 17.246 |
| Capital (net) | 617 | 737 | 1.191 | 8.198 | 17.160 |
| +Inflow | 622 | 745 | 1.291 | 8.534 | 17.817 |
| -Outward flow | -5 | -8 | -100 | -336 | -657 |
| Other Capital | 520 | 17 | 349 | 238 | 86 |
| Property (net) | - | 998 | 1.343 | 1.841 | 2.922 |

Interest-free loans for registered labour

Ziraat Bankası, Halkbank and Vakıfbank signed an agreement for a new lending initiative for small and medium-sized enterprises (SMEs) to encourage them to employ legal labour. A interest free loan of up to a maximum of USD\$100,000 will be available with a 6-month term as well as employee loans of YTL20,000 per person employed, also repayable over 6 months.

Foreign investors invest in YTL, domestic investors in foreign currency

Domestic investors are increasingly converting their savings into foreign currency. By contrast, due to the high interest yield, foreign investors are continuing to invest in Turkish currency linked securities.

Unemployment rate in January amounts to 11%

By comparison to the previous year, the estimated unemployment rate in January fell by 0.8 points to 11%. In urban areas, the estimated unemployment rate decreased by 0.8 points to 12.9% and in the rural regions this figure decreased by 1 point to 7.9%.

Hanover Fair was successful for the Turkey image

The Hanover Industrial Exhibition (Hanover Messe) began with a banquet on 15 April, attended by German Chancellor Merkel and Prime Minister Erdoğan. The chairman of the Istanbul Chamber of Commerce, Murat Yalçıntaş, stressed the importance of the Fair for the image of Turkish products in Europe. Yalçıntaş stated that Turkey's image in Europe is still negative; and remarked that even prominent journalists are not aware of the fact that Turkey is an industrialised country. Yalçıntaş stated "Within the frame of our discussions with the foreign media when we presented our production figures of household appliances and glass, and stressed that in those sectors we are aiming for the market lead, they did not believe us at first. Only after we provided them with the official numbers, were they convinced".

Turkish competition authority celebrates ten-year anniversary

The Turkish Competition Authority prepares for its tenth anniversary. The United Nations has suggested that Turkey should become a competition center for the Caucasus, the Middle East and North Africa.

Loan from the World Bank for electricity rehabilitation

The World Bank approved a Euro 205 million (US\$ 269.4 million equivalent) *Electricity Distribution Rehabilitation Project* for Turkey. The loan will be to Türkiye Elektrik Dağıtım AŞ (TEDAŞ), the government-owned electricity distribution company, and will be guaranteed by the Republic of Turkey. The main objective of the project is to help improve the reliability of power supply to consumers in Turkey by supporting electricity distribution rehabilitation and expansion. The project will assist in improving the distribution system in critical areas, reducing interruptions in supply, and expanding capacity. The investments will also help improve the distribution system's compliance with safety regulations.

The director of the World Bank office in Turkey Ulrich Zachau, stated that "A reliable and efficient electricity distribution system is important for ensuring energy security and sustained economic growth in Turkey—especially as electricity demand continue to rise". "The planned rehabilitation investments will help strengthen the existing distribution network, which in parts is outdated, and help increase its efficiency and reliability. We hope also that the project will enhance the attractiveness of the distribution business for private investment. The World Bank is pleased to support an important part of Turkey's ongoing energy sector reform program.

Politics

The process of the presidential elections and the way to early elections



Demonstration in Ankara: A mass demonstration attended by hundreds of thousands of supporters was organized by the Association of Atatürk's Thought (ADD), in Ankara on 14 April. The demonstration brought together members and supporters of over 300 nongovernmental organizations, many political parties, labor unions and professional groups. It was described as the “turning point” or a “landmark” event in which the ordinary people of Turkey spoke so loud for the first time that the “civilian forces” of the country were ready to assume the defence of the secular democratic republic against an Islamist radicalism threat.

Abdullah Gül is candidate of the AK Party for the office of the president: Prime Minister Recep Tayyip Erdoğan named Abdullah Gül, Minister of Foreign Affairs, as the new presidential candidate of the AKP party. Immediately after, Abdullah Gül submitted his candidacy request to the parliament presidency. The decision comes in the wake of a very large demonstration aimed at dissuading Erdoğan from running himself. Erdoğan said that Gül was “the person who emerged at the end of our evaluations as the candidate to become Turkey's 11th president.” Gül said: “the president must be loyal to secular principles... The president must be bound by the basic principles of the constitution... If I am elected I will act accordingly.”

Turkish Military's statement raises concerns: The Turkish General Staff published a press statement on 27 April on its Webpage expressing its “utmost concern” over “endless efforts to disturb the fundamental values of Turkey” and its readiness to act to preserve the secular identity of the Turkish Republic. The Turkish Industrialists' and Businessmen's Association (TÜSİAD) stated that “Early elections are a must to protect the inviolable integrity of secularism and democracy,” TÜSİAD issued a 4 point statement criticising both the military and the government, without mentioning the ruling Justice and Development Party (AKP) by name. TÜSİAD stated that “the current situation resulting from the military memo does not comport with democratic principles. The majority party has not given adequate regards to rising societal concern about the sanctity of a secular regime, a concern the document noted is shared by TÜSİAD. Early elections are an imperative to avoid damage to Turkish democracy. All parties should work sincerely to avoid the spread of tension and a renewal of national will both reduce tensions aid the country's emergence from the current situation’.

Demonstration in Istanbul - “neither sharia, nor putsch; democratic Turkey”: Hundreds of thousands of people marched in Istanbul in defence of Turkey's secular system of government. The demonstration was prompted by a row over the ruling party's candidate for Turkey's president, amid fears of a drift towards Islamist influence.

The first round of the presidential elections annulled: The first round of the presidential

elections was annulled by the Constitutional Court after the ruling AKP (Justice and Development) party failed to get the necessary quorum. Following the decision of the Constitutional Court, the AKP called for an early election on 22nd July and proposed some electoral reforms. The party's leader, Prime Minister Recep Tayyip Erdogan, said he wanted the president to serve up to two five-year terms, instead of one seven-year term, and for parliament's term to last four years instead of five. Mr Erdogan also said he wanted the president elected by the people not parliament. Thousands of protesters attended rallies in western Turkey to call for Mr Gul, the current foreign minister, to withdraw his nomination and for the secular system to be upheld.

1 May demonstrations

On 1st May, demonstrators gathered in Taksim Square to celebrate Labour Day as well as to commemorate the killings on 1st May 1977, when 34 people were killed during a demonstration at Taksim. Police fired warning shots and used pepper gas against the demonstrators. Over 1,000 people were arrested of which 33 people were charged and the remainder, subsequently released. Strict control measures were put in place on the day of the demonstrations causing severe traffic disruption and many businesses remained closed.

Other Topics

Çalık Group forms strategic partnership with German EWE

Çalık Energy sold 39.9% of its stake in Bursagaz, forming a strategic partnership with the German based international energy company EWE.

Korean Hyosung Corporation invests 130 million USD in Turkey

The Korean Hyosung Corporation will invest 130 million USD to set up a factory in Çerkezköy. The enterprise is one of the largest manufacturers of spandex, a synthetic kind of fiber, which is used in yarns for bathing suits, socks and underwear. The foundation-stone for the factory will be laid in May. The factory, which will employ 279 staff, will be ready for operation by the end of the year. Greg Vas Nunes, President of Hyosung Europe and America, stated that the proximity of Turkey to the European market was the selection criteria for the investment. According to Nunes, the factory will initially produce for the domestic market and with increased capacity, export to the European market. 15,000 tons of spandex will be produced annually in the Çerkezköy plant.

JCI will produce air conditioning systems in Izmir

The American firm Johnson Control International (JCI), the biggest world-wide producer of interior thermostats, has set up a technology development center for intelligent building management systems in Torbalı. Industrial air conditioning systems for the Turkish and European market as well as the Middle East will be produced in the Center. The opening of the plant will take place on 4 May 2007 and will be attended by representatives of JCI's senior management Allen Martin, responsible for North and Latin Americas and the Near East and Wilfried Peters, regional director of the Middle East.

IC-Fraport bid for the Antalya airport bid

The partnership of German Fraport and IC İçdaş İnşaat Sanayi is the highest bidder in the tender for the Antalya Airport terminal operation. TAV also tendered for the terminal operation however, IC-Fraport became favorite with the highest offer of USD\$3.2 billion.

Linde buys Turkish enterprise for Euros 92 millions

The German technology company Linde, acquired the Turkish industrial gas enterprise Birlesic Oksijen Sanayi A.S. (BOS) for Euros 92 million. According to Linde, the takeover is subject to the antitrust-law audit. After the acquisition of Karbogaz A.S. in July 2006, BOS is Linde's second largest transaction in Turkey.

Mondi Packaging about to make its second deal in Turkey

The Polish subsidiary of Mondi Packaging Swiece, acquired a share of the Turkish cardboard and box producer Tire Kutsan.

Isiklar, a bag and cardboard producer, also intends to dispose of part of its business. Swiece is among the French Gascongne Group and the Russian JSC, as short listed as potential buyers.

EVN subsidiary WTE builds large purification plant for Istanbul

WTE water technology, a subsidiary of the Austrian power supplier EVN, won an order for the construction of a large purification plant for Istanbul. The total investment for the plant will amount to Euros 108 million, financed by Istanbul's water administration ISKI. According to EVN, the portion allocated to WTE amounts to circa. Euros 50 million.

Vienna exports traffic know-how to Istanbul

At the Metropolis Traffic symposium in Istanbul, Viennese solutions like the GSM-parking and the planned "Pavement Management System" aroused great interest. The latter is a satellite navigation program for collecting information about the condition of the road surface. The system will be used in Vienna this summer, for the first time. Istanbul is planning to do something similar. 'Within the framework of a co-operation both cities would save on development costs', said Schicker, the Viennese Councillor for Infrastructure.

Mediamarkt entrance in Turkey

The Mediamarkt/Saturn holding company Metro Group, is aiming for an annual average growth rate of 6% for the next few years and an improvement in its EBIT margin. It considers Turkey to be one of the most promising markets, where Mediamarkt plans to enter. More than half of Metro's turnover is generated abroad.

Meinl invests 118 million Euro in Turkey

Meinl European Land plans to invest Euros 118 million on the construction of a 50,000m² large shopping centre and a five star hotel in Samsun, Turkey. As a result, the real estate portfolio in Turkey has increased to Euros 800 million. The shopping centre is estimated to cost approximately Euros 90 Million, generating a net yield of circa 11.5%. Completion is expected by the end of 2009. The hotel, which is estimated to cost approximately Euros 28 million, will be subsequently offered for sale.

Slovak Pharmacy Manufacturer Zentiva buys into Turkey

The Slovak pharmacy manufacturer Zentiva NV, the third biggest manufacturer in the industry in Eastern Europe, bought into the Turkish market. Zentiva acquired the generic medicament division of the Turkish manufacturer Eczacibasi for Euros 460 million.

C&A opens first chain store in Turkey

At the beginning of May, the fashion retailer C&A opened its first chain store in Istanbul. C&A plans to open a further 20 stores throughout Turkey within the next three years.

Ukraine

Ukraine – short introduction

After president Yushchenko's victory during the Orange Revolution in 2004, Ukraine's business potential has greatly increased. The Ukrainian economy has taken a big leap forward since catching up with its Eastern European neighbours. Currently, Ukrainian stock prices are among the fastest growing in the world, and many sectors of the economy have shown double digit growth figures for several years in a row. Major multinational players are entering Ukraine, motivated by the rapidly growing market for consumer goods with an emerging middle class, and political and legal climate that despite some hiccups, is no longer a major obstacle since Yushchenko came to power.

(at current prices)

| Indicators | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|--------|--------|--------|--------|--------|--------|------|
| Gross domestic product, UAH million | 204190 | 225810 | 267344 | 345113 | 441452 | 535860 | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at constant prices | 109.2 | 105.2 | 109.6 | 112.1 | 102.7 | 107.1 | |
| Volume of industrial production, UAH million | 184276 | 202688 | 259502 | - | - | - | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at constant prices | 114.2 | 107.0 | 115.8 | 112.5 | 103.1 | 106.2 | |
| Volume of agricultural production, UAH million | 65218 | 65253 | 64473 | 83900 | 92536 | 94300 | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at constant prices | 110.2 | 101.2 | 89.0 | 119.7 | 99.9 | 100.4 | |
| Consumer goods production, UAH million | 33524 | 37933 | 48336 | | | | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at constant prices | 117.7 | 108.4 | 120.4 | | | | |

| | | | | | | | |
|---|--------|------------------|--------|--------|--------|----------|--|
| Capital investment , UAH million | 32573 | 37178 | 51011 | 75714 | 93096 | 125253.7 | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at constant prices | 120.8 | 108.9 | 131.3 | 128.0 | 101.9 | 119.0 | |
| Retail turnover , UAH million | 34417 | 39691 | 49994 | 67556 | 94332 | 123668 | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at constant prices | 113.7 | 115.0 | 120.5 | 121.9 | 123.4 | 125.3 | |
| Volume of services , UAH million | 37822 | 46401 | 56121 | 72933 | 90794 | 103812 | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at constant prices | 115.2 | 122.7 | 128.1 | 130.0 | 124.5 | 127.2 | |
| Financial results of enterprises and institutions before taxation , UAH million | 18741 | 14641 | 19643 | 44578 | 64371 | 70237 | |
| Growth rate over the corresponding period of the previous year, % | | | | | | | |
| at current prices | 134.5 | 78.1 | 134.2 | 226.9 | 144.4 | 114.3 | |
| Percentage of unprofitable enterprises , % | 38.2 | 38.8 | 37.2 | 34.8 | 34.2 | 30.9 | |
| Average monthly nominal wages of persons employed in the Ukrainian economy , UAH | 311.08 | 376.38 | 462.27 | 589.62 | 806.19 | 1041.44 | |
| Growth rate to the previous year, % | | | | | | | |
| to the average monthly wages over previous year | 135.2 | 121.0 | 122.8 | 127.5 | 136.7 | 129.2 | |
| to December of the previous year | 127.7 | 117.0 | 124.4 | 127.7 | 144.9 | 125.2 | |
| Index of real wages of persons, employed in the Ukrainian economy , % | | | | | | | |
| to December of the previous year | 120.4 | 115.6 | 113.8 | 120.8 | 131.5 | 111.7 | |
| Income of population , UAH million | 109391 | 185073 | 215672 | 274241 | 381404 | 475200 | |
| Growth rate over the previous year, % | | | | | | | |
| | 125.9 | 117.1 | 116.5 | 127.2 | 139.1 | 128.2 | |
| Expenditures and savings of population , UAH million | 102835 | 185073 | 215672 | 274241 | 381404 | 475200 | |
| Growth rate over the previous year, % | | | | | | | |
| | 122.7 | 117.1 | 116.5 | 127.2 | 139.1 | 128.2 | |
| Consumer price index , % | | | | | | | |
| to December of the previous year | 106.1 | 99.4 | 108.2 | 112.3 | 110.3 | 111.6 | |
| Producer price index (industry) , % | | | | | | | |
| to December of the previous year | 100.9 | 105.7 | 111.1 | 124.1 | 109.5 | 114.1 | |
| Unemployment level (end of period), % | 3.68 | 3.8 | 3.6 | 3.5 | 3.1 | 2.7 | |
| Export of goods and services , U.S. dollar million | 21086 | 23351 | 28953 | 41291 | 44378 | 50239 | |
| Growth rate to the previous year, % | | | | | | | |
| | 109.5 | 110.7 | 124.0 | 142.6 | 107.5 | 113.2 | |
| Import of goods and services , U.S. dollar million | 20473 | 21494 | 27665 | 36313 | 43707 | 53307 | |
| Growth rate to the previous year, % | | | | | | | |
| | 114.1 | 105.0 | 128.7 | 131.3 | 120.4 | 122.0 | |
| External debt service ratio , % | 14.6 | 12.0 | 11.8 | 10.7 | 14.7 | 17.3 | |
| Gross international reserves , in months of next year's imports of goods and service | 1.7 | 1.9 | 2.4 | 2.6 | 4.5 | 4.4 | |
| in % of GDP: | | | | | | | |
| Consolidated budget revenues | 26.9 | 27.4 | 28.2 | 26.5 | 30.4 | 32.1 | |
| Consolidated budget expenditures | 27.2 | 26.7 | 28.4 | 29.4 | 32.1 | 32.7 | |
| Consolidated budget deficit | 0.3 | 0.7 ^a | 0.2 | 3.2 | 1.8 | 0.7 | |
| Current account balance | 3.7 | 7.5 | 5.8 | 10.6 | 3.0 | -1.5 | |

Source: National bank of Ukraine

5.05 UAH=1\$

April events

Parliamentary elections in Ukraine

Ukrainian President Viktor Yushchenko and Prime Minister Viktor Yanukovich have reached an agreement to hold early parliamentary elections ending a more than month-old standoff. Yanukovich finally agreed that there is no other way to resolve the crisis except by holding democratic and fair elections. The details of the elections still need to be worked out.

Ukraine has been in a political crisis since President Yushchenko signed a decree on April 2 dissolving parliament and calling early parliamentary elections; - a move he said was necessary to prevent Yanukovich from abusing his power. Yanukovich and his majority in the parliament first ignored the presidential decree, calling it unconstitutional.

President Viktor Yushchenko and Prime Minister Viktor agreed to the creation of a working group who will decide what new laws need to be adopted and when the election will take place. Previously, Yushchenko had set the election date for June 24.

Despite of the political crisis in April, the Ukrainian economy seems not to have suffered this month. Instead, year on year growth figures for most sectors continue to be on the rise.

Ukraine and Poland to co-host soccer championship

Poland and Ukraine will co-host the 2012 European Championship. The final will be held at Kiev's redeveloped Olympic Stadium. Ukraine has a long history of sport and football, but the general infrastructure, stadiums and training facilities will have to be greatly upgraded in the coming five years.

Ukrainian political and business leaders have greeted the announcement with euphoria and promise to build a new country within five years. The European Championship; being the ideal motivator to do so, has given the country a new "national idea". As a result, the development of the infrastructure in Ukraine will be greatly accelerated over the next five years.

There are concerns about the shortage of high-quality hotels and poor transport infrastructure. This could create huge opportunities for investors. The government has already adopted special legislation needed to facilitate investments and imports needed to get the country ready for 2012. The event is expected to create at least USD\$3 billion in additional revenue.

We are delighted to announce that commencing from this month, we can also offer our full range of services from our partner firm's offices in **Kiev, Ukraine**.

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FOREIGN MARKET CONSULTING Ltd. Sti. is a German-Turkish consulting company. We specialize in providing competent consultancy services for foreign companies towards opening up to Turkish market, lastingly consolidating the market position and concluding strategic alliances between foreign and Turkish companies. If you need further information, please do not hesitate to contact Mr. Peter Heidingen.

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