



TURKEY ON WAY TO EXPORT ENERGY WITHIN A DECADE

Turkey opens Tuz Gölü gas storage facility as part of energy supply security policy

February 2017 saw the commissioning of a critical investment for enhancing the security of gas supplies. As part of the policy to increase energy supply security, Turkey opened Tuz Gölü gas storage facility in the Central Anatolian province of Aksaray. This facility will increase the country's total storage capacity by nearly 50 percent.

The facility was inaugurated on February 10, with the participation of President Recep Tayyip Erdoğan and Minister of Energy Berat Albayrak. Comprised of 12 wells constructed with an investment of USD 700 million, the facility will pump about 4.4 mcm of gas daily into the country's gas network. With the completion of new phases of investment within the next few years, its storage capacity is expected to increase up to 5.4 bcm.

In December 2016, Turkey also put into operation its first floating storage regasification unit (FSRU) at Aliğa on the Aegean coast. The terminal's development, from the final investment decision to completion, took 6.5 months. Engie, the French multinational energy group, was selected by the project

partners Kolin and Kalyon to commit the 145,000-cubic meters Neptune vessel to the project.

With a capacity of up to 20 million cubic meters per day of gas send-out, the new Etki LNG terminal, together with two other onshore LNG terminals, will enhance the security of Turkey's natural gas supply.

In 2016, Turkey's energy imports fell 28.2 percent compared to the previous year, according to the Turkish Statistical Institute. Turkey's total electricity generation in 2016 was 269.8 billion kilowatt-hours, of which 131.8 billion kilowatt-hours, or almost half, came from domestic and renewable energy sources. The share of natural gas in electricity production was 89.14 billion kilowatt-hours, which meant its share in total electricity generation in 2016 was 33 percent, down from 37.8 percent in 2015.

In a ceremony on February 22, 2017, marking the 15th anniversary of the foundation of the Energy Market Regulatory Authority (EMRA), Minister of Energy Berat Albayrak stated that Turkey, a country that currently spends USD 50 billion on energy and mineral

imports every year, may become an energy exporter in the next 10 years.

Albayrak, recalling the importance attached to local and renewable resources, underlined that 2016 was a record year with around 49 percent of Turkey's electricity generated from local and renewable resources.

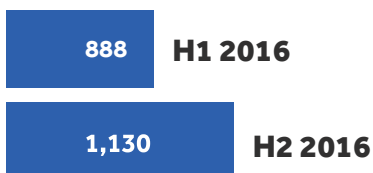
"In the next 10 years we should increase the share of domestic resources in electricity generation to at least two-thirds. We need to move this ratio to over 50 percent this year. We will work together, shoulder to shoulder. From now on, we will look for more resources, implement regulations, and open the way for investors, being supportive for a win-win model. We will install nuclear plants as well as local-coal fired ones. We need to develop resources with richer calorific values. Turkey spends USD 50 billion on imports every year; however, it will start paying less", he added.

Noting that Turkey's ratio of electricity generation from domestic coal reserves rose to 16 percent from 12 percent in 2016, Minister Albayrak pointed out that Turkey will take steps in both local coal and nuclear energy production.

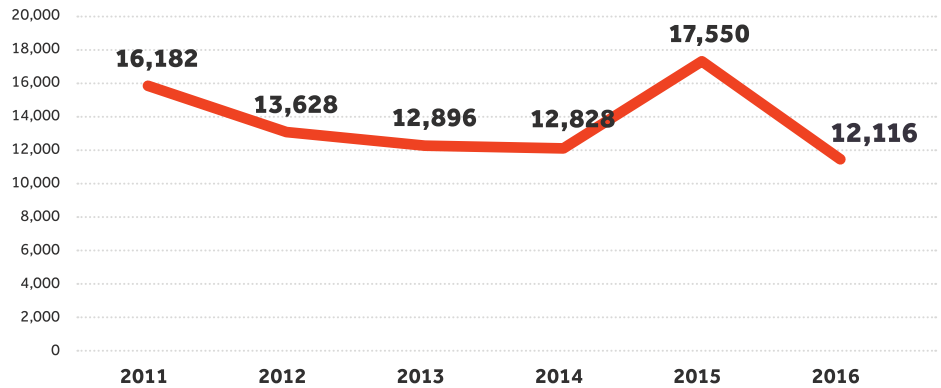
FDI IN TURKEY GAINS MOMENTUM IN H2 2016 AND EARLY 2017

Thanks to the recent reforms implemented and the incentives introduced, Turkey has experienced a considerable amount of recovery in total FDI in the second half of 2016. According to the statistics of the Central Bank of the Republic of Turkey, FDI inflows to Turkey reached USD 12.1 billion in 2016 despite adverse incidents over the year. Notwithstanding UNCTAD's forecast of a decline in global FDI flows, this figure is still around Turkey's long-term average FDI level. In the first half of 2016, FDI in Turkey declined almost 50 percent year-on-year, affected in large part by the global contraction. Turkey has regained momentum in FDI thanks to the measures taken and the confidence provided in the wake of July 15 failed coup attempt. Revised forecasts hinted that Turkey would close 2016 seeing only USD 10 billion in FDI due to the temporary shocks over the year; however, Turkey rebounded much quicker than anyone had expected.

AVERAGE FDI INFLOWS IN 2016 (USD million)



FDI INFLOWS (USD million)



Source: CBRT

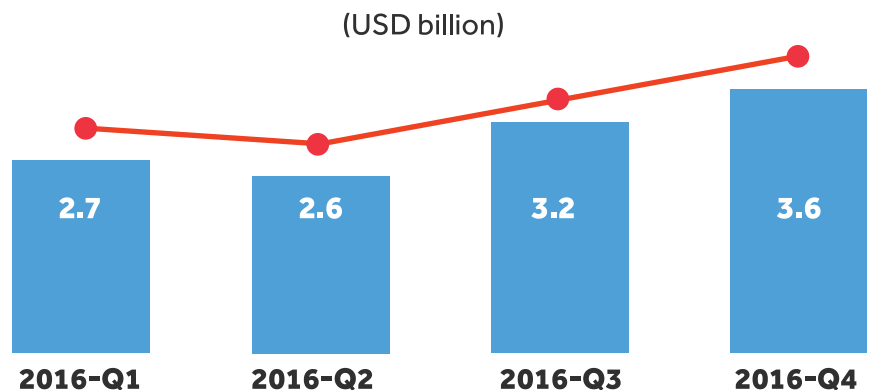
GROSS FDI EQUITY INFLOWS (USD million)



Source: CBRT

FDI amount of USD 1.9 billion in December 2016 was the highest monthly FDI inflow during the year – also the highest single monthly amount in 17 consequent months.

QUARTERLY FDI INFLOWS IN 2016 (USD billion)



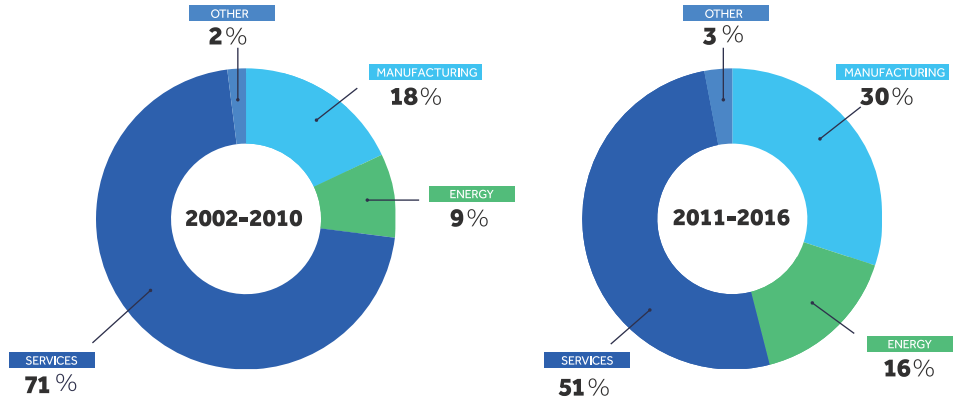
Source: CBRT

The USD 3.6 billion of investments in the last quarter played a key role in overall FDI amount in 2016. 56 percent of total FDI in 2016 was realized in the second half. Furthermore, average monthly FDI inflows to Turkey were USD 1.130 billion in the second half, whereas they were USD 888 million in the first half of 2016. These figures show that the investment climate in Turkey remains healthy despite the coup attempt.

FDI BREAKDOWN

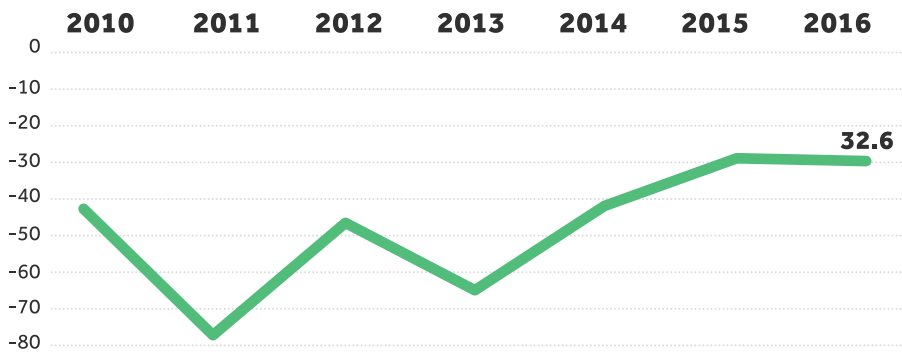
Almost half of the FDI inflow in 2016 was in the form of equity capital totaling USD 6.1 billion, followed by real estate purchases of USD 3.9 billion. The manufacturing sector attracted USD 1.723 billion of FDI in 2016, and manufacturing investments concentrated on food & beverage, chemicals, and electrical & electronical equipment. The UK, the Netherlands, and Azerbaijan were the largest contributors of FDI in 2016.

FDI BREAKDOWN BY SECTORS



Source: CBRT

CURRENT ACCOUNT BALANCE 2010-2016 (USD billion)



Source: CBRT

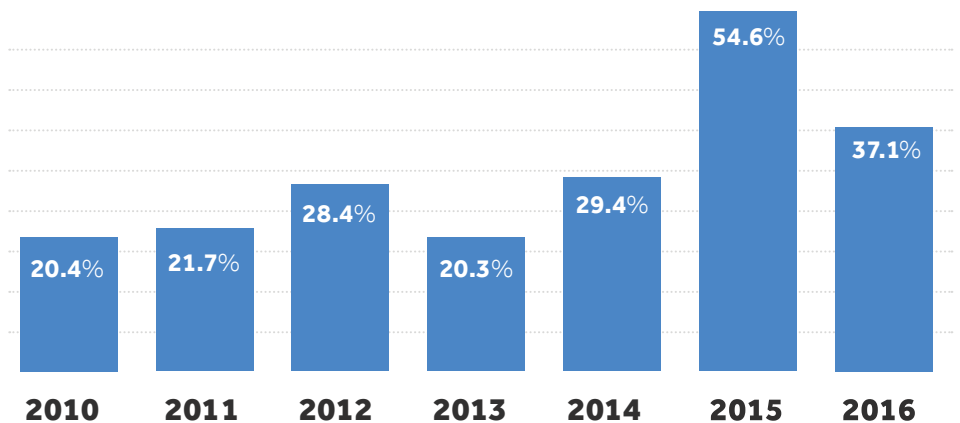
FDI vs. C/A BALANCE

In 2016, Turkey's current account deficit was USD 32.6 billion, which shows no significant deterioration when compared to the 2015 figure. The decline in tourism revenues was counterbalanced by the contraction in the foreign trade deficit. The current account balance, excluding energy trade, gave a deficit of USD 8.7 billion in 2016. Total FDI inflow covered 37 percent of the current account deficit in 2016.

FDI PROJECTION IN 2017

The upward trend in Turkey's FDI will continue in 2017. Investor confidence signals that Turkey is on course to attract more FDI in 2017 than the previous year. To give a very recent example, BBVA of Spain and Garanti Bank of Turkey recently agreed on a deal that will allow BBVA to acquire an additional 9.95 percent of Garanti shares, an investment worth around USD 900 million. This deal is indicative of investor confidence in the Turkish economy and its business climate.

CURRENT ACCOUNT COVERAGE BY FDI



Despite a year-on-year decline, the FDI/current account ratio in Turkey in 2016 is still far above the average of 2010-2014 period. This ratio is expected to rise in 2017 with the rebound in tourism revenues and decrease in energy imports that will lower current account deficit.

12-14 Istanbul
February **TURKEY**

ISTANBUL HOSTS WORLD BUSINESS ANGELS INVESTMENT FORUM

The World Business Angels Investment Forum (WBAF) 2017 took place on February 12-14 in Istanbul. The global organization brought together more than 100 renowned equity market experts covering 60 countries under the theme of "Partnering with Corporate Ventures from Start-up to Scale-up to Exit".

During the awards ceremony at the forum, ISPAT was named the Best Government Agency in the World in Supporting a Cross-Border Investment Ecosystem. ISPAT received the award due in part to its contributions in supporting investments that are required for Turkey's further development. ISPAT stands out as the first government investment and promotion agency in the world to prioritize angel investments and cross-border investments on its agenda.

24/27 Tokyo - Osaka
February **JAPAN**

ISPAT OFFERS JAPANESE INVESTORS INSIGHT INTO TURKEY'S M&A CLIMATE

Influencers from the Japanese investment community came together in Tokyo for ISPAT's M&A Investment Seminar that was held in cooperation with Japanese financial services giant Mizuho Bank, the Japan External Trade Organization (JETRO), multinational law firm Baker & McKenzie, and Istanbul-based investment consultancy company Pragma.



Top executives from the cooperating institutions along with Turkey's Ambassador to Japan Bülent Meriç and ISPAT Senior Advisor in Japan Yuichi Aoki contributed to the seminar with their speeches focused on the Turkish economy and the marketing, execution, and legal issues in Turkey's M&A climate.



During the closing remarks, ISPAT President Arda Ermut said Turkey's share in Japan's overseas investments - USD 2 billion over the past seven years - needs to be fostered, as does the current bilateral trade volume of USD 4 billion per year. Ermut used his closing speech to highlight some of Turkey's unique characteristics, such as a dynamic population with an average age of 31, a viable and growing economy, a location providing access to markets covering 1.6 billion people with a combined GDP of USD 25 trillion, and a regional energy corridor position that allows Turkey to secure energy supply pipelines between energy rich countries and Europe. These factors, emphasized Armut, make Turkey an attractive investment base for Japanese companies.

Being a high-tech country, Japan is one of the most remarkable and important countries in Far East with a net FDI export of more than USD 100 billion annually. As of June 2016, there are 215 Japanese companies operating in Turkey.

28
February **Kocaeli
TURKEY**

P&G COMMISSIONS USD 80 MILLION PRODUCTION PLANT IN GEBZE

Procter & Gamble (P&G), a multinational manufacturer of consumer goods that include family, personal, and household care products, commissioned a plant in Gebze, Kocaeli that will be used for the production of diapers and feminine care products. The plant represents a USD 80 million investment on the part of P&G.

During his welcome remarks at the opening ceremony, ISPAT President Arda Ermut said that P&G's new plant will contribute significantly to President Erdoğan's recent call for mobilization of employment in Turkey. The new plant in Gebze will enable localization of previously-imported product groups and bring in new manufacturing technologies to Turkey, according to P&G CEO David Taylor. The company has been operational in Turkey since 1987, and has invested over USD 700 million since its entry into Turkey, where it also manages operations in the Caucasus regions with 700 employees.

Meanwhile, Minister of National Defense Fikri Işık said the Turkish government considers P&G akin to a Turkish company that produces 60 percent of its product line in Turkey, exports 20 percent of its output, and is a major employer in the country.