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REPUBLIC OF TURKEY
PRIME MINISTRY
PUBLIC PARTICIPATION ADMINISTRATION

**PRIVATIZATION
IN
TURKEY**

DECEMBER 31, 1993

PUBLIC RELATIONS DEPARTMENT

WHY TURKEY?

Turkey, as a cradle of civilization for ages is strategically located at the crossroads of Europe, the Middle East, the Black Sea Region and Turkish Speaking Republics of Central Asia offers an excellent base for economic activities throughout the region. Turkey is a historical gateway from the ancient silkroad to the new markets by a powerful focus of growing importance as the world changes.

INVEST IN TURKEY, INVEST IN THE FUTURE

Because:

*Turkey with its long running excellent relations with the CIS(Commonwealth of Independent States), Central and East European States , The Turkish Speaking Republics of Central Asia, the Gulf and the Middle East offers a perfect base to access and serve these markets.

*With its liberal foreign investment law, free trade practices and numerous incentives for investments and exports , Turkey is the most suitable candidate to become a major trade and finance center for the region.

*Turkey is a member of UN (United Nations), NATO (North Atlantic Treaty Organization), OECD (Organization for Economic Cooperation and Development), European Council and has partnership agreement with European Community. Besides playing a pioneer role in the establishment of the Black Sea Economic Corporation, Turkey has agreements with ICSID (International Center for Settlement Investment Dispute) and MIGA (Multinational Investment Guarantee Agency).

MAIN ECONOMIC INDICATORS

				<u>Foreign Trade and Balance of Payments1990 1991 1992</u>		
<u>Gross National Product(GNP)</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	Exports-FOB(USSB)	13	13.6
at current prices(US\$)	150	147.4	153.6	Imports - FOB(USSB)	22.5	21.0
per capita income(US\$)	2.675	2.571	2.622	% exports over imports(%)	57.8	64.7
deflator	54.9	57.3	62.6	International reserves	11.8	12.2
growth rate(%)	9.2	0.5	5.9	Current account balance(USSB)	(2.6)	0.2
					(0.9)	
				<u>Public Sector Borrowing Requirement(PSPR)</u>		
<u>Gross Domestic Production Composition by Products (%)</u>				In USSB	10.8	13.1
agriculture	18.9	16.2	15.4	PSPR/GNP(%)	7.1	10.4
industry	22.7	23.1	22.8			9.6
services	58.4	60.7	61.8			
<u>Employment</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>Price and Interest Fluctuations(%)</u>		
civilian labor force(1000 Persons)	20.163	20.707	20.073	Whole sale price indices	46.6	59.2
civilian employment(1000 Persons)	18.861	19.237	18.462	Consumer price indices	60.4	71.1
unemployment rate	7.3	8.2	8.0	Interest rates on;		66.0
workers abroad (1000 person)	1.163	1.278	1.338	- time deposits	57.2	72.7
				- sight deposits	12.1	12.3
				- short term bank borrowings	83.9	100.8
				- long term bank loans	82.9	94.4
				- securities	51.9	72.0

Performance of İstanbul Stock Exchange (ISE)

The price index of ISE has deteriorated approximately 75 % between August 1990 thru late 1992 due to negative impact of the Gulf War of 1991. However commencing from January 1993 especially April 1993 the price index of ISE has shown a remarkable increase of approximately 198 % in terms % US\$. This represents some of the very best performance globally across the major and emerging markets. It is anticipated that the market to continue to do well, due to the following reasons:

- Diminished risk profile and as a result confidence in the centrist government.

- The linkages between Turkey and the major European economies suggest that the spill over effects of a European recovery will be strong.

- The privatization program and introduction of new equity investments should continue to bring investors into the market. In connection therewith the Capital Markets Board approved listing of equity - based mutual funds.

- Longer term, Turkey represents a major play as a regional entrepot, especially given its proximity to the newlyminted Balkan States and Central Asian Republics.

THE PUBLIC PARTICIPATION ADMINISTRATION (PPA)

The Prime Ministry, Housing Development and Public Participation Administration (HDPPA) was founded in February, 1984, in order to accomplish the following objectives.

- * financing mass housing projects.
- * implementing the privatization programme together with the financing of major infrastructure projects such as highways and dams.

The Administration was split into two separate bodies, namely, Public Participation Administration(PPA) and Housing Development Administration in April, 1990. Currently, the PPA is vested with the authority of;

- * conducting the privatization programme.
- * managing the Public Participation Fund,
- * financing major infrastructure projects.

The Administration's head office is located in Ankara in two separate buildings one of which is allocated for the Privatization Department and has an office in İstanbul.

PPA currently employs more than 200 people of which 70 work in the Privatization Department and the general structure is composed of professional staff.

DECISION MAKING AND THE EXECUTIVE BODY

Is composed of two separate bodies,

Public Participation High Council (PPHC) :

- * Is the decision making and the executive body of the privatization programme .
- * The 7 member council is chaired by the Prime Minister and is comprised of the Deputy Prime Minister, a State Minister, the Minister of the Public Works, the Undersecretary of State Planning Organization (SPO), the Undersecretary of Treasury and Foreign Trade(UTFT) and the President of Public Participation Administration (PPA).

Public Participation Administration (PPA):

- * Is responsible for the planning and execution of the privatization programme.

THE PUBLIC PARTICIPATION FUND (PPF)

The Public Participation Fund is used to finance:

- * 1.545 kilometers of toll motorways of which 1.020 kilometers have already been completed. The actual payments since 1986 for the financing of these projects have amounted to approximately US Dollar 7.4 billion. (1993 : US Dollar 933.6 million)
- * 25 dams and hydroelectric power stations of which 13 have been completed and 8 of them are a head of the schedule. This has resulted in an additional electricity power production of 8.7 billion kwh. 14 drinking water projects and infrastructure investments in Antalya and Mersin Free Trade Zones. Total payments from the PPF for these projects have reached to approximately US Dollar 2.2 billion. (1993 : US Dollar 135 million)
- * The investments in the Development Priority Regions of approximately US Dollar 536 million (1993 : US Dollar 23.4 million)

THE ROLE OF PPA IN THE PRIVATIZATION PROGRAMME

Currently, PPA is the sole body which executes the privatization applications in Turkey. Approximately 90% of State Economic Enterprises (SEE's) operate being as the related parties of various Ministries. Accordingly, all decision making process in economical, commercial and social areas are executed by the relevant Ministries. So far as only 10% of SEE's have been transferred to PPA for the purpose of privatization and the summary of significant privatization applications for these SEE's have been explained in more detail in the accompanying position paper.

During the course of the privatization process, the following procedures are applied upon transfer of SEE's to PPA by the decision of the Council of Ministers:

- Change of the Articles of Association to comply with the relevant Articles of Turkish Commercial Code.
- External audits of SEE's by the independent auditors.
- Valuation of SEE's by the consulting banks/firms.
- Selection of the appropriate sales method to be determined by PPA and the consulting banks/firms.
- Tender announcement in local and foreign media.
- Selection of the eligible investor and
- Signing of the contract.

THE PHILOSOPHY OF THE PRIVATIZATION PROGRAMME

The privatization programme has been implemented since the mid 1980s in order to:

- * minimize STATE INVOLVEMENT in the economy,
- * accelerate further establishment of MARKET MECHANISMS within the context of LIBERAL ECONOMIC POLICIES,
- * confine THE ROLE OF STATE in the economy to areas like health, basic education, social security, national security, large scale infrastructure investments and provide suitable legal and structural environment for free enterprise to operate.

The major targets of the privatization programme are primarily,

- * To enhance COMPETITION in the economy,
- * To decrease the FINANCING BURDEN of State Economic Enterprises on the national budget,
- * To broaden and deepen the existing CAPITAL MARKET by promoting wider share ownership,
- * To provide EFFICIENT allocation of resources.

THE LEGAL FRAMEWORK

Related regulations which govern the privatization applications are

- * Law No: 2983
- * Law No: 3291
- * Statutory Decree No: 414
- * Statutory Decree No: 437
- * Statutory Decree No: 473

Within the perspective of the provisions of Law No: 3291 and Statutory Decree 473:

- * The Council of Ministers is authorized to give the decision on the transfer of SEE's shares to the PPA for privatization whereas.
- * The High Planning Council is authorized to decide the transfer of partially state owned companies and subsidiaries to the PPA for privatization.

PRIVATIZATION APPLICATIONS:

I. A summary of the privatization activities commencing on 1986 through 1992. and as of January 31, 1993 are as follows:

	NUMBER OF COMPANIES	SALES PROCEEDS (US \$ 1,000)		
		1986-1993	1994	TOTAL
Total number of companies (SEEs, equity participations and subsidiaries)	126			
Transfer of incomplete and non-operating units of the various SEE's to PPA	26			
TOTAL TRANSFERRED	152			
COMPANIES PRIVATIZED BY				
- Block sale	58	954,696	-	954,696
- Public offering	24	430,398	-	430,398
- International offering	1	56,817	-	56,817
SUB-TOTAL		1,441,911	0	1,441,911
- Stock sales via İstanbul Stock Exchange	24	379,044	40,403	419,447
- Incompleted plants and factories sold	16	24,111	-	24,111
SUB-TOTAL		403,155	40,403	443,558
DIVIDEND INCOME FROM PARTICIPATIONS		664,038	466	664,504
GRAND TOTAL		2,509,104	40,869	2,549,973

II. The companies privatized as of December 31, 1993 are as follows:

NAME OF THE COMPANY	STATE SHARES (%)	INDUSTRY TYPE	PURCHASED BY	SALES PROCEEDS (US \$)
ŞEKERBANK	10.00	Commercial Bank	PANKOBİRLİK	1,872,539
KEPEZ ELEKTRİK	25.39	Electric Utility	RUMELİ ELEKTRİK A.Ş.	33,158,988
ÇUKUROVA ELEKTRİK	11.25	Electric Utility	RUMELİ ELEKTRİK A.Ş.	81,096,791
NETAŞ	49.00	Manufact. of Tel. Equip.	Block Sale + Public Offering	93,381,981
- Block Sale	20.00		NTL Northern Telecom Ltd.	27,816,447
- Public Offering	13.68		Public Offering	8,748,710
- International Offering	15.32		Institutional investors	56,816,824
GİMA	94.05	Supermarket Chain	BİLFER-DEDEMAN Joint Venture	10,961,500
TOE	81.35	Automotive	SÜPER OTO A.Ş.	8,000,000
LADIK ÇİMENTO	100.00	Cement	RUMELİ ÇİMENTO	57,598,687
ŞANLIURFA ÇİMENTO	100.00	Cement	RUMELİ ÇİMENTO	57,405,988
BARTIN ÇİMENTO	99.78	Cement	RUMELİ ÇİMENTO	20,568,669
AŞKALE ÇİMENTO	100.00	Cement	ERÇİMSAN Erzurum Çimento	31,158,000
TELETAŞ	18.00	Telecommunication	ALCATEL HOLDİNG B.V.	21,002,400
USAŞ	30.00	Service	Public Offering	15,205,871
YEM SANAYİİ		Animal Feed	Various local investors	11,432,689
SEK		Milk and Dairy Products	Various local investors	159,939
AEG - ETİ	11.11	Electric Transformer	AEG GmbH	2,199,542
İSTANBUL DEMİR ÇELİK	40.00	Chromium Extraction	BİRLİK MADENCİLİK	164,345
TOTAL				445,367,929

III) The following summarizes the synopsis of the most significant privatization applications encountered since 1986 through December 31, 1993:

CEMENT FACTORIES:

- a) Prior to 1988, cement production was realized both by government and private sector. ÇİTO-SAN used to be the sole cement manufacturer with its 22 factories in the government sector, holding a market share of approximately 32%. Under the privatization program of the Government of Turkey, it has been decided that privatization of 5 factories (Afyon, Ankara, Balıkesir, Söke and Trakya) should be taken into consideration. Subsequent to completion of the valuation of these factories and negotiations held with the investors, these factories have been sold to Set Group (Societe Cement Français) to the extent of \$ 105 million in 1988.
- b) Of the remaining 17 factories 11 cement companies (Denizli, Ladik, Trabzon, Çorum Sivas, İskenderun, Aşkale, Gaziantep, Şanlıurfa, Adıyaman, and Bartın) have been transferred to PPA and have been privatized in the following sequence:

- * Date of the High Planning Council's decision for the transfer of 11 cement factories to PPA July, 1991
- * Completion of external audits and valuation of the companies May, 1992
- * Launching date of the international tender announcement May, 1992
- * Expiry date of the tender announcement July, 1992
- * Sum of the highest bids obtained US \$ 285 million
- * First round negotiations held with investors
 - date August, 1992
 - sum of the bids US \$ 335 Million
- * Second round negotiations hold with investors
 - date September, 1992
 - sum of the bids: US \$ 355 Million
- * Third and final negotiations
 - date October-November, 1992
 - sum of the bids US \$ 445 million

c) Sales Proceeds:

Of the total eleven cement companies,

- * 6 Companies (Denizli, Trabzon, Çorum, Sivas, Gaziantep and İskenderun) have been sold to the extent of US \$ 281 million during December 1992.
- * Remaining 5 companies whose sales have not been approved by PPHC were Adıyaman, Aşkale, Bartın, Ladik and Şanlıurfa and the final offer for these companies had amounted to US \$ 164 million.
- * Subsequent to completion of a new tender, except Adıyaman, the 4 cement companies have been sold to the extent of US \$ 167 million and the outcome of the sale of the last remaining (Adıyaman) cement company is subject to the decision of PPHC.

Currently ÇİTOSAN owns 7 other cement factories, the head office and other subsidiaries constituting a market share of approximately 6%. Privatization of these companies and subsidiaries are in PPA's future years' consideration.

ÇUKUROVA ELEKTRİK (ÇEAŞ) and KEPEZ ELEKTRİK :

These two companies are engaged in the generation, transmission and distribution of electricity at the Mediterranean Region of Turkey. The following summaries the must significant date for the above stated companies:

	ÇUKUROVA ELEKTRİK	KEPEZ ELEKTRİK
Date of establishment	December 24, 1952	August 6, 1955
Principal line of operations	Generation, transmission and distribution of electricity and related commercial services	Generation, transmission and distribution of electricity and related commercial services
Region in which the operations and the services are conducted	Çukurova (Eastern Mediterranean Region including Adana, Hatay and İçel provinces)	Entire Antalya province and certain parts of Burdur province (Western Mediterranean Region)
PPA share	25.45% as of 1987 (transfer of shares to PPA from Turkish Electricity Authority)	43.68% as of 1987 (transfer of shares to PPA from Turkish Electricity Authority)
Amended Law which Governs the company's operations	Entrustment Agreement signed on October 19, 1988 by the Ministry of Energy and Natural Resources in accordance with Law 3096	Entrustment Agreement signed on October 19, 1988 by the Ministry of Energy and Natural Resources in accordance with Law 3096
Duration of the Company	70 years until 2058, with a new Assignment agreement executed with the Ministry of Energy and Natural Resources under the provisions of Law 3096 date October 19, 1988	70 years until 2058, with a new Assignment agreement executed with the Ministry of Energy and Natural Resources under the provisions of Law 3096 date October 19, 1988
Number of power plants	1 thermal and 6 hydroelectric	3 hydroelectric
Length of the Company's:		
- Power transmission lines	2.682 km	1.200 km
- Underground cable network	62 km	-
The total installed capacity	1.812.500 KWA	355 KWA
Number of Employees	1.465	353
Revenues	US \$ 296 million (for the year ended 1992)	US \$ 56 million (for the year ended 1992)
History of privatization of PPA shares:		
- public offering	5.45%	8.14%
Date	16-17 April, 1990	16-17 April, 1990
Amount	US \$ 38.8 million	US \$ 9.4 million
- block sale	11.25%	25.39%
Tender notice:		
- announcement date	December 6, 1992	December 6, 1992
- expiry date (tender deadline)	January 12, 1992	January 12, 1992
- minimum offer amount	US \$ 38.796.000	US \$ 14.951.000
Sales date	February 10, 1993	February 10, 1993
Sales proceeds	US \$ 81.1 million	US \$ 33.2 million
Investor	Rumeli Holding	Rumeli Holding
- sale via İstanbul Stock Exchange	8.75%	10.15%
Date	Various	Various
Amount	US \$ 57 million	US \$ 3.5 million

NETAŞ Northern Elektrik Telekomünikasyon A.Ş.:

The company was established in 1967, to manufacture telecommunications equipment under the licencing agreement with Northern Telecom Ltd. Canada, (NTL) which was holding 31% of the company's shares. PPA's shareholding was 49%. Under PPA's 1992 privatization programme, the entire shares of PPA had been decided to be sold by a combination of block sale and public offering. In connection therewith, the valuation of the company's shares was completed in October and the tender announcement for PPA's 20 % share, was published in November 1992, declaring the minumum offer value of TL 206 billion (US \$ 25 million at date of the announcement).

Subsequent to the expiry date of the tender announcement, December 1, 1992, and approval of PPHC 20 % of NETAŞ shares was sold to NTL on March 1, 1993 for a price of US \$ 27.8 million including the interest and the dividend income of US \$ 4.3 million from 1992 operations of NETAŞ.

Of the remaining portion of shares held by PPA (29%) 7.75 % , as approved by the Capital Market s Board was offered for sale on March 3, 4, 5, 11 and 12, 1993 to public and US \$ 8.7 million was generated from this transaction. Remaining NETAŞ shares of 15.32%, subsequent to further proceeds in İstanbul Stock Exchange have been sold to international investors including institutional investors in December 1993 to the extent of approximately US \$ 57 million.

TELETAŞ Telekomünikasyon Endüstri ve Ticaret A.Ş. :

The company established in 1983 was the first good example in PPA's privatization history. 22% of the company's shares were sold during 1988 by public offering and these shares are traded at İstanbul Stock Exchange . The remaining shares of PPA (18%) is planned to be sold during 1992 by block sale. In accordance with the company's Articles of Association, certain requirements had to be fulfilled prior to sale of the company's shares by one of the partners. PPA completed such required procedures in September, December 1992 and May 1993, due to the fact that price offered by the foreign shareholder was not satisfactory to permit PPA to sell its shares. New tender notice was announced both in local and foreign press which expired on May 24, 1993. Subsequent to negotiations held with Alcatel Holding B.V, the entire shares of Teletaş held by PPA were sold to ALCATEL to the extent of US \$ 21 million, in August 1993.

USAŞ Uçak Servisi A.Ş.:

70% of PPA shares was sold to SAS Partnership during 1988. In accordance with the company's Articles of Association, the remaining 30% shares held by PPA should be sold to company's employees and public. Subsequent to the valuation of the shares, completion of the financial audit of the company and the related procedures as required by the Capital Markets Board for the public offering PPA shares have been totally offered for sale to public on October 20 thru 22, 1993 and US \$ of 15.2 million income was generated from this transaction.

AGRO INDUSTRY:

	T. Sut Endustrisi Kurumu (State Milk and Dairy Products Company) (SEK)	Yem Sanayii (State Feed Products Company) (YEMSAN)	Et ve Balık Kurumu (State Meat Processing Company) (EBK)	ORUS Orman Ürünleri Sanayii (State Forest Products Company) (ORUS)
Principal Line of Operation	Production of milk and dairy products	Manufacturing of animal feed	Meat/fish processing	Production of forest products
Number of Employees	1,857	1,622	6,579	4,655
State Share (PPA)	100%	100%	100%	100%
Main Products	Milk and dairy products	Composed feed	All kinds of meat, chicken and fish products	Timber coating, chipping plate, parquet and others
Processing Capacity	194 million lt/year	437,000 tonnes/year	78,000 tonnes/year	580,000 m ³ /year+2,450,000 m ² /year of various wood products
Net Sales	US \$ 100.3 million	US \$ 81.1 million	US \$ 360 million	US \$ 122.9 million
Market Share	23%	15%	18%	15%
Total Number of Premises	34	27	28 meat, 2 chicken and 2 fish processing units, 8 cooling storage facilities	42 factories
Total Outstanding Debts (*)	US \$ 41,270 million	US \$ 60,670 million	US \$ 242,160 million	US \$ 57,230 million
Distribution Channel	135 agents, 168 vendors	1,268 vendors and factory sales	71 stores	140 vendors

Source: Outstanding debt includes, short and long term bank borrowings, trade and non trade accounts payable and staff retirement pay liabilities. Extracted from the companies' financial statements and external auditors' reports relating to 1991 and 1992.

a) Major SEE's operating in agro industry transferred to PPA for privatization on May 1992:

The above companies' financial audits by the independent external auditors and valuations by the investment bankers on an installation basis were completed at the end of August 1992. PPHC has approved the sale of the above SEE's on an asset sale basis, accordingly the Companies' existing liabilities and obligations would be retained in the parent Company until their liquidation.

b) Sales Proceeds:

YEMSAN and SEK

Tender notices have twice been announced in local and international press in December 1992 and May 1993 respectively. Subsequent to completion of negotiations held with investors,

for YEMSAN,

- PPHC has approved the sale of 15 premises of YEMSAN to the extent of US \$ 10 million.
- PPA plans to privatize the remaining 12 premises and 2 real estate of YEMSAN by considering and granting additional incentives to,

1) local people, 2) the workers, 3) local investors

In connection therewith tender announcements were made in local press which will expire on January 17-19, 1994.

for SEK,

- Sale of the premises of SEK has been submitted to PPHC for approval.

The companies current outstanding debt and estimated yearend losses are.

	<u>YEMSAN</u>	<u>SEK</u>
Current outstanding debt	\$ 81 million	\$ 48 million
Estimated yearend loss	\$ 63 million	\$ 25 million

EBK

Tender notices of each premise have been published in local press on November, 1993 which have expired on January 4-13, 1994. Negotiations with the tenderers are continuing.

ORÜS

Of the total premises sale of 4 significant ones (Antalya, Ardeşen, Bafra, and Dicle) have been submitted to PPHC for approval.

The sale of the remaining premises is subject to the outcome of the above 4 premises.

IV) Companies under privatization:

TOFAŞ Türk Otomobil Fabrikası A.Ş. (TOFAŞ):

The company which was incorporated in 1968 through a Turkish-Italian cooperation, has been manufacturing passenger cars, in its plants in Bursa (220 km south of İstanbul) under FIAT licence since 1971. The company also manufactures various automotive spare parts. A substantial portion of the Company's products are sold through its affiliated company, TOFAŞ Oto Ticaret A.Ş. (TOFAŞ Oto) which acts as a distributor for the passenger cars and spare parts.

PPA holds 21.13% and 18.48% of shares in TOFAŞ and TOFAŞ Oto respectively. To assess the shares of TOFAŞ, request for proposals were sent to investment bankers on May 28, 1993 and proposals were received on the expiry date of July 5, 1993.

Evaluation studies of the investment bankers' proposals and the presentations they have performed to PPA have been completed. A consortium composed of two international and local investment bankers have been assigned to undertake the initial public offering (IPO) of TOFAŞ in the international markets (USA, Europe and Japan). The IPO will be conducted by Rule 144 A private placement basis in U.S., Europe and rest of the world. It is anticipated that approximately US \$ 650 - 700 million revenue will be generated from this transaction by mid of March 1994.

PETKİM Petrokimya Holding A.Ş. (PETKİM)

PETKİM which was established in 1965 is engaged in the production of all kinds of chemicals extracted from petroleum. The company owns two major plants, in İzmir and Yarımcı, İzmit (60 km east of İstanbul) and the entire production approximately of 1.600 K tonnes/year takes place in these plants.

PPA's share holding in this Company is 95.65%. Since substantial investment for a new capacity is required, privatization of Petkim is expected to be done through:

- rehabilitation of Yarımcı plant.
- establishing a new and privately operated plant in the form of a joint venture where PETKİM will continue to be a partner.

Studies re-selection of investment banker is continuing.

Türkiye Petrol Rafinerileri A.Ş. (TÜPRAŞ):

TÜPRAŞ, being the number one firm among top 500 companies in Turkey, was incorporated in 1983 and is engaged primarily in refining of crude oil. The Company's total annual refining production of approximately 27.6 million tonnes/year takes place in its four refineries located in,

- Yanımca, İzmit (approximately 60 km. east of İstanbul)
- Aliğa, İzmir (approximately 40 km. north of İzmir)
- Kırıkkale (approximately 70 km. east of Ankara)
- Batman (southeastern of Turkey).

PPA's shareholding in this Company is 98.36%. As instructed by his Excellency of the President of Turkey (the former Prime Minister) in March 1993, PPA will accelerate the privatization of TÜPRAŞ by selling two of its refineries (Kırıkkale and İzmir). In connection therewith privatization teams in PPA and TÜPRAŞ have been established. Preliminary plant visits of some refineries by PPA team have been completed. For the purpose of the valuation of the refineries and to determine the appropriate sales strategy request for proposals were sent to international investment bankers. Subsequent to termination of tender expiry date of August 2, 1993, PPA team has completed the evaluation of the proposals and a short list was prepared. Oral presentations with lead investment bankers included in the short list have been completed and the local investment banker and its consortium was selected to under take the valuation of the refineries together with the gasoline stations of Petrol Ofisi. The project which will commence on early February 1994, is composed of two phases:

Phase I is primarily related with the evaluation of the refineries and determination of the privatization strategy. It is planned that phase I will take approximately 3 months.

Phase II relates to the sale of the refineries and the gasoline stations of POAŞ which will be determined subject to the outcome of phase I. It is intended that such sale will be in the form of strategic sale to a third party and public offering internationally and locally.

Petrol Ofisi A.Ş. (POAŞ):

POAŞ, a 95.98% owned company by PPA was established in 1941 and acts as a distribution agent of TÜPRAŞ and furthermore is engaged in the production of lubricants and grease oil. As instructed by his Excellency of the President of Turkey (the former Prime Minister) in March 1993, PPA will also accelerate the privatization of the gasoline stations of POAŞ in line with the strategies which will be determined during the privatization of TÜPRAŞ refineries as more fully explained in the preceding paragraph.

PETLAS Lastik Sanayi ve Ticaret A.Ş. (PETLAS)

PETLAS which was founded in 1976 is engaged in the manufacturing and trading of tires primarily for the automotive industry. The Company has commenced its test production in September 1989 and commercial activities in March 1990. The Company is 99.85% owned by PPA whose shares were transferred by PETKİM Petrokimya Holding A.Ş. in 1990 since at that date the Company was included in the privatization programme of the Government.

In connection with the privatization programme of the Company, financial audit and valuation of the Company were completed by the independent external auditors and the investment banker respectively. The tender notice regarding to the sale of the company has been announced both in the local and international press and has expired on December 14, 1993. The results of the tender will be submitted to PPHC soon.

TURBAN Turizm A.Ş.

TURBAN, being the first professional operator of hotel chains and marinas in Turkey, was established in 1971 under the organization of Tourism Bank (T.C. Turizm Bankası A.Ş.). The operations of the Company continued until 1988, the time at which tourism function and operations were separated from the Bank by the decision of High Planning Council and a new Company operating under Turkish Commercial Code was established. In 1988 the Company's entire shares were transferred to PPA for privatization purposes. Today, the Company manages 4 marinas, 19 hotels and holiday villages and a travel agency. PPA anticipates the sale of the following premises shortly thru local and international press announcement.

- Land at Küçüksu, İstinye and former Carlton Hotel (İSTANBUL)
- Çeşme Hotel and its Annex (Çeşme, İZMİR)
- Kemer Marina (Kemer, ANTALYA)

SÜMERBANK and SÜMER HOLDİNG:

Under the new mission enacted by the Government, PPA will also assume the coordinating function responsibility of the privatizations between the relevant state owned enterprises, outside consultants, various governmental institutions and Ministries and PPA. In connection therewith, a first try is under implementation with Sümerbank Holding. The following summarizes some key information regarding Sümer Holding.

Principal Line of Operation	:	Manufacturing of textile and leather products and banking activities
Number of Employees	:	32,453
State Share (PPA)	:	100 %
Main Products	:	Cotton and wool yarn, ready made apparel, wool and silk carpet, leather products and chemicals
Net Sales (1992)	:	US \$ 440 million (1992), US \$ 270 million (September 30, 1993)
Market Share by Significant Product Lines	:	Cotton Thread 8.6 % Cotton Textile 14.4 % Wool Thread 8.9% Wool Textile 7.67 % Carpet (hand knotted) 2.3% Carpet (machine) 1.3% Shoe manufacturing 6.6%
Total Number of Premises	:	33 factories, 36 subsidiaries, and equity participations in 433 retail units (stores), 17 regional management units and a bank composed of 47 branches
Distribution Channel	:	Through its well-established retail units
Estimated Privatization	:	Immediate sale of excess land not used by the company to the extent of approximately 7.895.611 sqm., <ul style="list-style-type: none">- Sale of equity participations.- Franchise system offering or sale of textile and other premises on individual plant basis.- Sale of retail stores to local and foreign department store chains.- Sale of bank by offering its banking activities and all its existing licences to investors.

Source: September, 1993 Operational Report.
1992 figures (Average TL/\$ rate in 1992 = 8.615)

From the above stated table tender notice re-sale of 8 factories and 5 subsidiaries and equity participations will be announced soon both in local and international press by the company management.

Of the total 7.895.611 sqm land, approximately 960.124 sqm was sold to the extent of \$ 14 million. Such income from this transaction was transferred to the company's equity for the purpose of fund raising.

In accordance with a Government Decree enacted on October 4, 1993, the banking function of the Holding was separated from the body and a new Bank was established as a separate legal entity, upon transfer of all its assets and liabilities other than property, plant and equipment, rights, licences, personnel and well established interbranch communication system to another state bank.

Tender announcement for the sale of the Bank has expired on November 1, 1993. Negotiations with the investors are still continuing.

KÜMAŞ Kütahya Manyezit İşletmeleri A.Ş.:

The company which was established in 1972 is engaged in the extraction of magnesite and processing of sinterized magnesite, fire brick, mortar, calcinated magnesite. PPA holds 99.28% of the Company's shares. Upon having completed the valuation of the Company by the consulting bank, the tender announcement relating to the sale of PPA shares was published in local and international press commencing on April 2, 1993 and the tender deadline expired on May 21, 1993. Negotiations with the tenderers are still continuing and it is anticipated that the negotiations will take some more time.

TESTAŞ Türkiye Elektronik Sanayi ve Ticaret A.Ş.:

The company which was established in 1976 is engaged in the manufacturing of semi conductors, electronic products and components. PPA holds 99.45% shares in the company. The external audit conducted by the independent auditor and the valuation of the company by the consulting bank as of December 31, 1992, have been completed. The tender announcement on negotiation basis was announced on July 27, 1993 both in the local and international press and expired on September 6, 1993. Subsequent to completion of the negotiations with tenderers and the results of the tender has been submitted to PPHC for approved.

However, since sale of the Company's shares have not met the PPA's criteria, the sale was cancelled. PPA plans launching a new tender soon.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (ERDEMİR):

The company which was established in 1960 and is the sole that steel manufacturer in Turkey.

The Company's current average crude steel production is approximately 2 million tonnes p.a. Under the Company's capacity increase project the annual production capacity will increase to 3 million tonnes by the end of 1994.

The Company's share capital is composed of the following shareholders:

PPA	20.57%
Sümer Holding	25.76%
Türkiye Kalkınma Bankası	5.47%
Other	48.20%

Total 100.00%

The Company's consultant which was appointed by PPA, is continuing its studies for the determination of privatization strategy. It is anticipated that the outcome of this subject will be finalized considering entire government stake during 1994.

TÜRKİYE DENİZCİLİK İŞLETMELERİ (TURKISH MARITIME INC.):

Türkiye Denizcilik İşletmeleri is the sole passenger and major freight carrier operating as a full state owned enterprise. Among the operations of the company are mainly,

- commuter services in İstanbul, İzmir and İzmit Bay,
- domestic and international maritime services
- domestic and international freight carrier services

TÜRKİYE GEMİ SANAYİİ A.Ş. (TURKISH SHIP CONST.):

Türkiye Gemi Sanayii A.Ş. which was established in 1985 is primarily engaged in the construction of freight vessels. Since inception of the company 137 vessels have been built and the company is financially sustaining heavy losses. PPA team has commenced on its preliminary studies which will include plant and shipyard visits, review of accounts and problem detections.

THY - TURKISH AIRLINES:

The company which is 99% owned by PPA was founded in 1993 and is primarily engaged in the commercial transport of passenger and freight, through out its well established more than 20 domestic and 51 international points.

The Company is one of the most fastest growing airliner both in Europe and in Asia. Especially during preceding years THY, with its long running excellent relations with Commonwealth of Independent States, Central and East European States, The Turkish Speaking Republics of Central Asia, the Gulf and the Middle East has offered a perfect base to access and serve these countries. The Company's current fleet is composed of, 14 Airbus A-310, 2 Airbus A-340, 7 Boeing B-727, 21 Boeing B-737, 9 DC-9 and 4 BAE-ATP totalling up 57 aircrafts with a seating capacity of 8792 passengers. Considering the company's future expansion, THY intends to make additional investments by increasing its seat capacity to over 10.000 (1994). In connection therewith agreements are made to buy 3 new Airbus A-340 and 7 Boeing B-737 aircrafts in 1994.

As a consequence of new additions, average youngness age of the fleet became 70%. From the Company's privatization standpoint approximately 1.54 % of shares was sold during 1990 by public offering and the shares are traded at İstanbul Stok Exchange. For the remaining shares PPA will consider the most suitable privatization strategy applicable to THY during 1994

OTHER PROJECTS:

In accordance with recently enacted HPC's decision the following companies were transferred to PPA for privatization:

HAVAALANLARI VE YER HİZMETLERİ A.Ş. (HAVAŞ)

The company which was established in 1935 is engaged in airport handling services such as baggage claim, check-in services, passenger transportation between the air terminal and the aircraft and coach services between the city terminus and airports.

The Company's operations since inception (1935) has continued together with Turkish Airlines and USAŞ until 1987. Since 1987, the Company operates as a separate legal entity which is owned by both Turkish Airlines (49%) and state Airport Administration (51%)

Per High Planning Council's decision dated November 25, 1993 shares of State Airports Administration have been transferred to PPA. Related studies in connection with the privatization of the Company's entire shares (including THY portion) have commenced. Furthermore selection process of the investment banker will start soon.

KARADENİZ BAKIR İŞLETMELERİ A.Ş. (KBİ)

Founded in 1968.

Headquarters: Samsun (Eastern Black Sea Coast of Turkey)

Lines of Operation: Mining and processing of copper

PPA's Share: 99.94 %

Number of Employees: 2.716 as of the end of 1992

ÇINKO KURŞUN METAL SANAYİİ A.Ş. (ÇINKUR)

Founded in 1968.

Headquarters: Kayseri (Approx. 350 km. east of Ankara)

Lines of Operation: Mining and processing of zinc and lead

PPA's Share: 98.41 %

Number of Employees: 631 as of the end of 1992

DİTAŞ

The Company which is 79.98 % owned by PPA is established in 1974 and engaged in the transportation of crude oil to the refineries of TUPRAŞ. A substantial portion of the TUPRAŞ crude oil purchases are realized via the Company's 2 owned and approximately 35 chartered vessels.

Studies relating to the privatization of the Company have commenced by visiting the Company's premises and changing the Articles of Association.

PPA'S PLANNED PRIVATIZATION ACTIVITIES FOR THE FUTURE:

a) Planned Income:

In accordance with the budgets prepared by PPA, for the years 1993 and 1994 approximately US \$ of 1.5 and US \$ 1.7 billion are planned to be generated as privatization income for 1993 and 1994 respectively.

The anticipated breakdown of 1993 and 1994 revenues are as follows:

	<u>1993</u>	<u>1994</u>
- Privatization income	: TL 13.000 billion	TL -
- Dividend income from participations	: TL 2.000 billion	TL -
TOTAL	: TL 15,000 billion	TL 30.000 billion

(For convenience purposes average TL 10.000 and TL 17.750 are applied for TL/US \$ exchange rates for 1993 and 1994 respectively)

b) 1995 - 1998 Considerations:

Over the next 4 years PPA targets to privatize at least 30 % of the state shares and aims to generate an income of approximately \$ 9 billion.

In connection therewith studies are carried out by PPA to announce a privatization programme for 1994-1998 period.

This programme will include some major state owned industries and will be submitted to PPHC for approval by early 1994. Among such industries under consideration are the state operated iron and steel, the state owned petrochemical, petroleum refining and distribution sectors of which studies on some of these industries have already commenced in 1993. Since substantial investment for a new capacity is required, privatizations of the above sectors are expected to be done through newly established and privately operated companies where the state will continue to be a partner.

SUMMARY OF ONGOING REGULATORY STUDIES :

The summary of ongoing regulatory studies followed by PPA in the preparation of this paper are set out below:

1) Amendments To Existing Law No: 3291 Which Governs The Privatization Applications in Turkey:

a) Decision Making Authority on Privatizations:

As more fully explained in the "Legal Framework" paragraph of this leaflet, there are various laws and regulations which govern the privatization applications as authorized by the Council of Ministers, High Planning Council (HPC) and the Public Participation High Council (PPHC).

In order to accelerate, establish the integrity, improve the efficiency, avoid the complexity of the privatization applications and to enable prompt decision-making, PPA has proposed a regulatory amendment in the decision making procedure of Privatization Applications by,

- i) combining all existing laws and regulations under one law.
- ii) abolishing the roles of the Council of Ministers and HPC, instead appointing PPHC as the sole authorized decision making body of Privatization Applications.

Other major amendments and additions to regulations can be summarized as follows :

- * For the purpose of accelerating privatization applications, reorganizing the structure and personnel policy of PPA and enlarging the context of companies that will be privatized.
- * Enabling PPHC to give direct authorization to the Board of Directors of SEEs and other companies for privatization applications.
- * Providing incentives to buyers prior to or after the privatization of the companies within the context of the principles to be defined by PPHC.

b) Unemployment Insurance Fund:

Anticipating the negative social impacts that may arise due to potential employment cuts in the course of privatization of the SEE's, PPA has worked out and concluded a draft law of "Unemployment Insurance Fund" for those employees who may lose their jobs.

Under this law, the primary source of the Fund will be financed by the transfer of 15% of the privatization revenues. In addition, international and World Bank sources will also be considered as financial contributors for this Fund.

The Fund will be spent primarily for the purpose of training, orientation and relocation of the workers as well as redundancy payments and to finance the workers who will start up their own jobs.

c) Debt Liquidation Fund :

For the purpose of providing the financial viability of the companies under privatization, a law has been drafted in order to accelerate and improve the efficiency of the privatization applications. In connection therewith it was decided to establish "Debt Liquidation Fund" which will improve the financial positions of the above stated companies by writing off the outstanding debt either wholly or partially. The primary sources of the Fund will include the following:

- i) 15 % of the privatization revenues.
- ii) inter and intra budget and fund transfers.
- iii) local and international borrowings.
- iv) Endowment and interest income generated from above revenues.

d) Status of the Government Officers working in the Companies which are under privatization:

The relevant change encompasses.

i) the transfer of the Government Officers from the companies under privatization to other Government Institutions or State Economic Enterprises, in the event of any staff availability, with the condition of maintaining their existing status.

ii) the change in the status of employment, from being a Government Officer to employee working under the rules of the Social Security Institution. In order to comply with this requirement, the related officers who would like to be transferred, would be required to file their application requests within 2 months commencing on the date of the sale of the company.

iii) the retirements of officers who have completed their full years' of service of employments.

e) Transfer of the Title Deeds of the Properties from the Treasury to the New Owners

Subsequent to Privatization:

In accordance with the provisions of this amendment, it was decided and proposed that:

- the land which was registered in the name of Treasury on which the company is operating will be transferred to the new owner following privatization.
- the valuation of such property will be assessed by Treasury experts at a reasonable current market value.
- subsequent to valuation of the land, the transfer of the asset will be made in the form of share capital increase and thus will increase the company's assets.

The draft amendments to Law No: 3291 prepared by PPA for the above stated regulatory studies have been submitted to Prime Ministry and the relevant Ministries.

II) Other Regulatory Studies:

a) Encouragement of Employees' Savings :

In order to accomplish the major targets of the privatization concerning the wider share ownership and expanding and deepening the capital market, PPA has proposed a regulatory change draft relating to the management of the Account of Encouragement of Employees' Savings.

The regulatory change recommends that at least 15 % of the employees' savings should be transferred into a separate account and, hence to be invested primarily in stocks of publicly open state owned enterprises under privatization which are likely to offer higher yields to investors in Istanbul Stock Exchange as well as in other types of securities with high liquidity.

The relevant proposal letter has been forwarded to the Undersecretary of State Planning Organization prior to decision of the High Planning Council.

b) Social Aid Payments:

The SEE's and the company's having either majority or minority state shareholding are presently required to make payments to the Social Security Institution for the retired employees of the companies. The monthly payments are determined by the Government and are adjusted every six months. These payments made to retired employees by the companies are then claimed from the Social Security Institution within two months subsequent to actual payments made to retired employees. In order to avoid the complexity of the application in the course of collections among the company, Social Security Institution and the Government, and to eliminate and abolish the company's related liabilities, an Appendix to the existing Law has been drafted and submitted to the Ministry of Labor and Social Security.

THE REPUBLIC OF TURKEY
PRIME MINISTRY
PUBLIC PARTICIPATION ADMINISTRATION

A PRIVATIZATION CASE STUDY :
PRIVATE PLACEMENT OF TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

ANKARA. MARCH 1994

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I. INTRODUCTION

The Public Participation Administration (PPA), an agency of the Prime Ministry of the Republic of Turkey, responsible for privatization of State Economic Enterprises in Turkey sold the 21,13 % state shares in TOFAŞ Türk Otomobil Fabrikası A.Ş. (TOFAŞ), the largest automobile manufacturer of Turkey, within the context of the government's divestiture program.

The PPA was established in 1984 and is responsible for, among other activities, the implementation of the privatization program of the Turkish Government. The privatization programme has been implemented since mid 1980s in order to minimize state involvement in the economy, to accelerate further establishment of market mechanisms within the context of liberal economic policies, to confine the role of state in the economy to areas like health, basic education, social security, national security, large scale infrastructure investments and to provide suitable legal and structural environment for free enterprise to operate in. In addition, the major targets of the privatization programme are primarily to enhance competition in the economy, to decrease the financing burden of State Economic Enterprises on the national budget, to broaden and deepen the existing capital market by promoting wider share ownership, and to provide efficient allocation of resources.

During the 1986-1993 period, shares held by the Government of Turkey in 126 stated-owned companies and interests held by the Government in certain incomplete and non-operating companies have been transferred to the PPA pursuant to the Privatization Law. As of the March 1994, PPA has completed the divestiture of its interests in 15 companies by means of public sales of its share holdings on the İstanbul Stock Exchange, 47 companies by means of block sales, 9 companies by means of a combination of these two methods, and 2 companies by means of international private offerings including TOFAŞ. In addition, PPA has privatized 16 incomplete and non-operating companies by transferring the management rights to private sector.

TOFAŞ was formed in 1968 by Internazionale Holding Fiat S.A. (FIAT), the Italian automobile company, and Koç Holding A.Ş. (Koç Holding), one of the largest conglomerates in Turkey. FIAT has 41.5%, Koç Holding has 34.2% and PPA has 21.1% of the outstanding shares of the company whereas the rest is publicly held.

TOFAŞ currently has a market share of 45% and its products are targeted toward the middle to lower end of the Turkish automobile market: the largest segment of the market.

All of its automobiles are marketed, distributed and serviced in Turkey by an affiliated company Tofaş Oto Ticaret (TOT) and also, spare parts for TOFAŞ are distributed by another affiliated company Opar Otomobil Parçaları A.Ş. (OPAR). The extent of the sales, service and spare parts network of TOT and the spare parts distribution network of OPAR affords TOFAŞ a competitive ~~and~~ advantage in comparison to new entrants.

Its paid in capital is TL 600 Billion and 21.1% PPA shares in the company were offered by a Combined Offering consisting of i) an offering of Global Depository Shares (GDS) outside the United States, ii) an offering of American Depository Shares (ADS) in the United States, iii) an offering of shares in Turkey.

The sale is very important for the Turkish privatization efforts in terms of the amount and method of sale. It was the largest offer accomplished simultaneously in domestic and international stock markets.

II. SELECTION OF THE JOINT COORDINATORS - THE BIDDING STAGE

Why is it a Global Offering? There were two major reasons behind selling TOFAŞ shares in the international markets;

- i) Istanbul Stock Exchange was so thin that the market capitalization of PPA' holdings in TOFAŞ (US \$ 418,4 million based on the offering price of TL 72.000 on March 4-7, 1994) was higher than the daily trading volume of ISE (the 1993 year end daily trading volume was US \$ 72,1 million),
- ii) The potential investors would not be represented in the Board of Directors with only a 21.1% of shares of which 4 members consisted of FIAT representatives and 3 members of Koç Holding representatives.

Why is there a domestic flotation as well? Although there was a high demand of TOFAŞ shares by the international institutions before the offering, the amount of shares traded in the ISE had to be increased from 2.6% to at least 5% so as to prevent speculative price fluctuations which generally occur in shares with low market capitalization. Therefore, it was decided to float the shares in the domestic market as well simultaneously with the global offering.

How were the Joint Coordinators selected? The tender was opened in May 1993 to which PPA invited five investment banks asking them to submit their proposals with a local partner by July 1993. The basic selection criteria were:

- i) method and amount of offering,
- ii) the stock exchanges where the shares would be quoted at,
- iii) duration of the offering,
- iv) valuation methodology,
- v) pricing methodology,
- vi) obligations of the investment bank, and
- vii) after market support.

After the final evaluation of the investment banks, due to the high volume of the offering, PPA decided to give the mandate to two foreign consortia as Global Coordinators along with two local partners. These all together became the Joint Coordinators.

What was the agreed upon pricing and sale methodology, when would be the timing? It was agreed that the method would be a public offering by registering to the Securities and

Exchange Commission (SEC) in the United States and private placement in international markets. However, the method of offering was changed into a Rule 144 A private placement in the United States as a result of the opposition from the major shareholders. Accordingly, the proposed Terms of Appointment and Engagement Letter were signed in September 1993. The GDSs would be listed in the Luxembourg Stock Exchange quoted at SEAQ (Stock Exchange Automated Quotation System) International of the London Stock Exchange and the ADSs would be traded at PORTAL (Private Offerings, Resales and Trading through Automated Linkages) of NASDAQ (National Association of Securities Dealers) in the United States. The offering price for ADSs and GDSs would be identical and payable in dollars. The offering price for the shares offered in Turkey would be the approximate Turkish Lira equivalent of the U.S. offering and the International Offering price. The sale would take place by the end of 1993.

III. ORGANIZATION OF THE JOINT COORDINATORS

In order to accelerate the preparation for the offering stage, Joint Coordinators proposed that independent audit companies, legal counsels and public relations firms to act as consultants should be appointed by PPA. Accordingly, the selection of the consultants was accomplished based on primarily their past working experience with TOFAŞ and the government of Turkey.

Finally, the consultants and Joint Coordinators formed committees to increase the efficiency by systematically dealing with promotion, legal procedures, coordination and flow of information among the related parties.

The *Auditors Committee* worked in coordination with the legal counsel who gathered all the data related to the offering. The last 5 years' and 9 months' financial statements were audited and accordingly, the prospectuses to be distributed in the international markets were prepared. The committee also managed the interviews with TOFAŞ top management to provide input to the "Management, Discussion and Analysis" part of the prospectus which covered the last three years' financial performance of TOFAŞ.

The *Steering Committee*, on the other hand, managed strategic planning and progress meetings held between the Joint Coordinators to solve the emerging problems on time.

The *Marketing Committee*, on the other hand, consisted of two public relations firms which dealt with both international and domestic public information campaigns. Later on, two local market research firms were hired to perform the research activities.

The international syndicate structure was formed by the Joint Coordinators. They sent invitation letters to 21 international investment banks and based on the selection criteria which were basically:

- i) their expectations from the ISE in 1994,
- ii) valuation of TOFAŞ shares,
- iii) price and demand expectations for TOFAŞ shares in 1994, and

iv) their market making abilities at SEAO international.

As a result of the evaluations, 14 of these banks accepted to participate in the syndicate. Simultaneously with this, 10 investment banks and intermediaries were selected as domestic sales agents.

IV. ROADSHOWS AND DETERMINATION OF PRICE (BOOKBUILDING)

Besides other minor problems, two major factors resulted in changes in the timing of the offering. The first one was the merging of TOFAŞ, TOT and OPAR. The two major shareholders of TOFAŞ had opposing views in this issue and was solved by PPA's securing that the merge would be halted for one year. The second factor was a licensing agreement that was not finalized at the offering stage. A minor issue on the other hand was the substantial amount of environmental pollution liability which was deemed to be paid by TOFAŞ.

Although all of the above issue were solved, they delayed the timing of the offering to the first quarter of 1994. This, in turn, required a year end auditing of the financial statements of the company.

At the offering stage, since it was prohibited to perform wide public relations campaign internationally in Rule 144 A private placement, the only promotion in the international markets was through the offices of the Global Coordinators. One-on-one meetings were held with the institutional investors and country presentations were made during the roadshows at 21 cities to 114 institutional investors at the USA, Europe and the Far East. The pricing called as bookbuilding also started with these roadshows three weeks before the international offering.

In order to measure the local demand for TOFAŞ shares and prepare inputs to the advertising campaign, market research was made by two local firms and simultaneously with the roadshows, the advertising campaign started in Turkey.

V. CLOSING OF THE DEAL IN TURKEY AND ABROAD

The prices and the demand volume of the institutional investors in the international markets were compared on March 3, 1994 so as to decide on the offering price and amount to be allocated to the investors by the Global Coordinators. Accordingly, the price per share was determined as US\$ 16.5.

On March 3, 1994, a "Purchase Agreement" and "Agreement for Warranties and Indemnities" were signed between the Joint Coordinators and PPA. Joint Coordinators then made agreements with 14 investment banks mentioned before who were acting as underwriters placing the shares. Correspondingly, in Turkey, the agreement was signed with 10 intermediaries acting as domestic sales agents on a best efforts basis.

After the bookbuilding process, in Turkey the price of TL 5.000 share corresponding to one ADS or one GDS was set at US\$ 16.5. This price was converted into TL over the 7 days forward \$/TL rate and set at TL 360.000 per share in the Turkish market. As a result, the shares were offered by fixed price on March 4-7, 1994 during which time the investors declared their demand for the TOFAŞ shares.

On March 9, 1994, at the "Closing" which is defined as the transfer of shares and counter transfer of the raised funds, the "Comfort Letters" were signed and submitted to PPA by the auditors and legal counsels. A Comfort Letter is a statement approving that the information provided in audit reports are correct. On the other hand, the "Cross Receipts" showing the exchange of funds in return for shares were signed between PPA and the Joint Coordinators.

As a result, the closing took place on March 10, 1993 after an eleven months effort.

VI. CONCLUDING REMARKS

The results of the offering are as follows:

International Offering	: 16.67 %
Reserved for International Offering (Green Shoe)	: 2.62 %
Domestic Offering	: 0.13 %
PPA's Remaining Shares	: 1.71 %
<u>Shares Offered</u>	: <u>21.13 %</u>

Apart from providing a non interest bearing source of funds amounting to US\$ 384.7 Million, the offering helped the promotion of Turkey in the international markets as well as a review of the related regulations.

It is believed that a major determinant in the success of this offering, despite the adverse market conditions, is the decisive and mediating role played by PPA. This transaction is also of unique importance since the experience gained in this process will lead the way for the offerings to come.