INTERNATIONAL DIRECT INVESTMENTS

2017 YEAR-END EVALUATION REPORT

(March 2018)

INTERNATIONAL DIRECT INVESTMENT INFLOWS TO TURKEY REACHED USD 10.8 BILLION IN 2017.

International Direct Investment (FDI) inflows to Turkey reached **USD 10 billion 830 million** by the end of 2017 with a **decrease of 19%** compared to the last year.

Source: Central Bank of Turkey *(incl. real estate purchased by non-residents)*

The total FDI inflow in 2017 (USD 10.8 billion) is consisted of USD 5.6 billion net international direct investment inflows, USD 619 million other capital and USD 4.6 billion real estate purchased by non-residents.

Real estate purchased by non-residents had an important share of 43% in the total inflows. Inflows to real estate purchases (USD 4.6 billion) increased by 19% compared to 2016.

Distribution of International Direct Investment Inflows to Turkey

(Million $)	2013	2014	2015	2016	2017
Capital (Net)	9.936	8.371	11.713	6.913	5.568
Inflow	10.523	8.632	12.077	7.534	7.437
Outflow	587	261	364	621	1.869
Other Capital (Net)	578	427	2.133	2.540	619
Real Estate (Net) *	3.049	4.321	4.156	3.890	4.643
Total (FDI)	13.563	13.119	18.002	13.343	10.830

Source: CBT *(incl. real estate purchased by non-residents)*

In 2017, **services sector** is the leading sector in the total FDI inflow (USD 7.437 million) with a share of 64% (USD 4.753 million). Services sector was followed by **industrial sector** with a share of 35.6% (USD 2.653 million).

Finance and Insurance is the **leading sub sector** under services sector with its USD 1.452 million FDI intake. **Transportation and Storage** sub sector constituted a significant increase compared to 2016, more than 100%, and ranked as **the second** with USD 1.350 inflow. Whereas the inflows to **manufacturing sub-sector** decreased by 44% and ranked as **the third** sub-sector with USD 1.261 million.

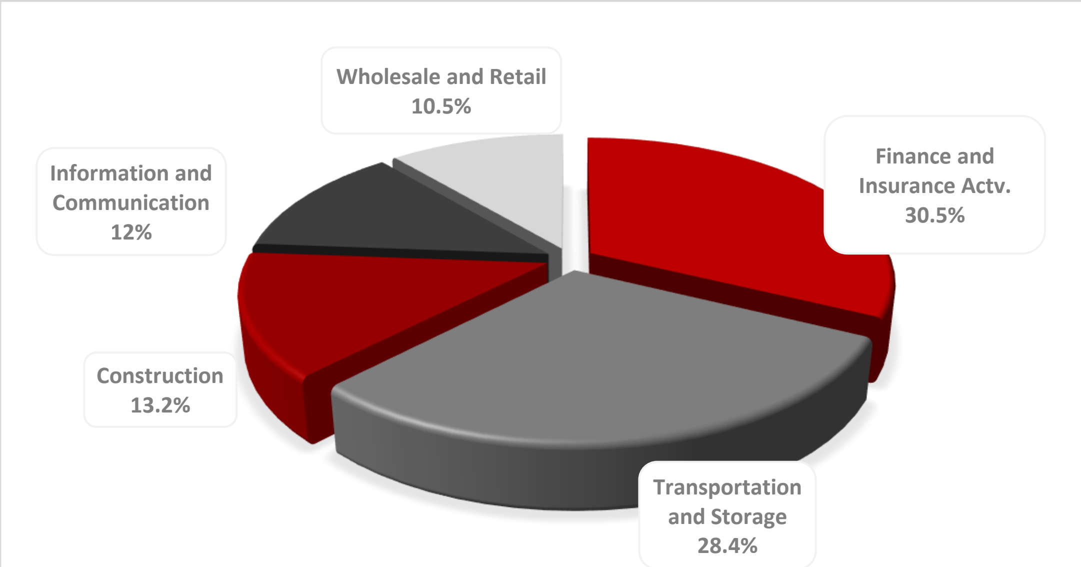
Sectoral Distribution of International Direct Investments

Sectors (million $)	2013	2014	2015	2016	2017
Capital Inflow	**10.523**	**8.632**	**12.077**	**7.534**	**7.437**
1. Agriculture	**47**	**61**	**31**	**38**	**31**
2. Industry	**5.390**	**4.258**	**5.774**	**3.067**	**2.653**
Manufacturing	2.843	2.742	4.227	2.241	1.261
Electricity, Gas, Steam	1.794	1.131	1.338	676	943
Mining, Quarrying	717	382	207	148	448
Water Supply, Waste Management	36	3	2	2	1
3. Services	**5.086**	**4.313**	**6.272**	**4.429**	**4.753**
Finance & Insurance	3.415	1.470	3.516	1.766	1.452
Transportation & Storage	364	594	1.524	635	1.350
Construction	178	232	106	291	627
Information & Comms	120	214	150	91	557
Wholesale & Retail	379	1.137	599	688	501
Healthcare and Social Services.	106	204	58	274	62
Capital Outflow	**587**	**261**	**364**	**621**	**1.869**
Other Capital (Net)	**578**	**427**	**2.133**	**2.540**	**619**
Real Estate (Net)	**3.049**	**4.321**	**4.156**	**3.890**	**4.643**
Total	**13.563**	**13.119**	**18.002**	**13.343**	**10.830**

Source: CBT

The inflows to **Services Sector** increased by 7% compared to 2016 and reached to USD 4.753 million by the year-end**.** In regard to the sub- sectors; **although** the **Finance and Insurance** decreased by 18% compared to 2016, it still became **the leading sub- sector** with a share of **30.5%** and reached to **USD 1.452 million**. **Transportation and Storage** sub sector doubled with the amount of USD 1.350 million and had a share of 28.4% and ranked as **the second**. These two sub sectors in Services Sector were followed by with the shares of; **Construction 13.2%, Information and Communication 12%, and Wholesale and Retail 10.5%** sub sectors respectively.

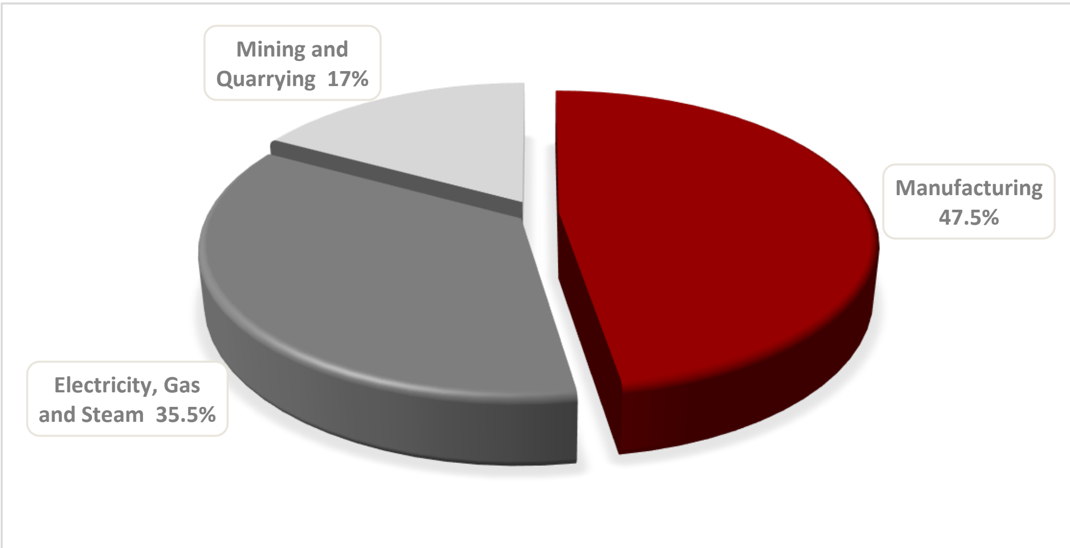
Distribution of FDI Inflows to Services Sector in 2017



Source: CBT

The FDI inflows to **Industry Sector** decreased by 13.5% compared to the last year and was amounted USD 2.653 million. In regard to the sub sectors under Industry Sector; the inflows to **the manufacturing sub sector** was radically decreased by 44% compared to 2016 and was amounted USD 1.261 million whilst manufacturing sector took the share of **47.5%** and became **the leading sub sector** within the Industry Sector. It was followed by **Electricity, Gas and Steam sub sector** which constituted **40% increase** and reached **to USD 943 million**, similar to this, **Mining and Quarrying sub sector** constituted the 3- time increase compared to the last year and reached USD 448 million. Both two sub sectors took the shares of **35.5%** and **17%** respectively.

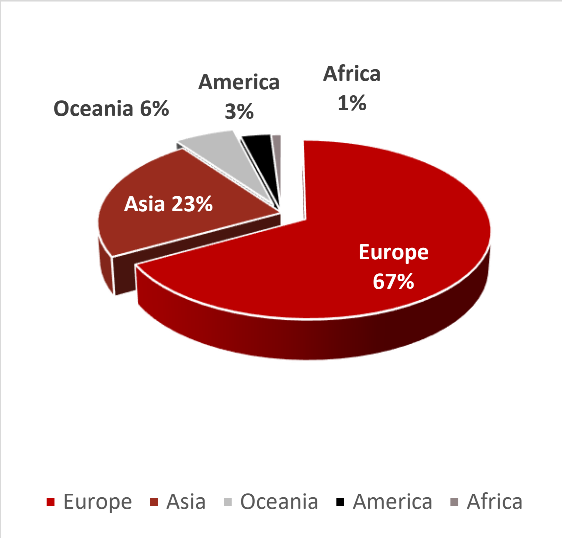
Distribution of FDI Inflows to Industry Sectors in 2017



Source: CBT

As of 2017 year-end, the main FDI sourcing countries to Turkey are **the Netherlands, Spain** and **Azerbaijan** respectively. In regard to the distribution of FDI inflows at regional level; European countries are the main source of the FDI inflows by **67%**. It was followed by **Asian countries** with a share of **23%**, **Oceania** by **6%**, **America 3%** and **Africa %1** respectively.

Distribution of FDI Inflows by Countries and Regions in 2017



Countries	FDI Inflow (million $)	Share (%)
Netherlands	1.768	24
Spain	1.451	20
Azerbaijan	1.009	14
Australia	459	6
Austria	326	4
UK	324	4
Germany & Japan	295	4
Belgium	225	3
USA	171	2
Italy	124	2
Other	990	13
Total (Capital Inflow)	7.437	100

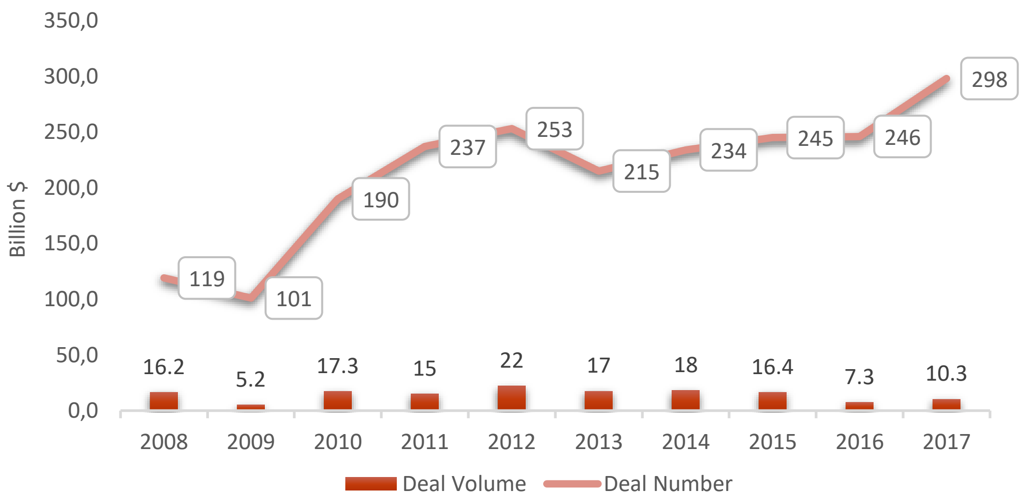
Source: CBT

MERGERS & ACQUISITIONS (M&A)

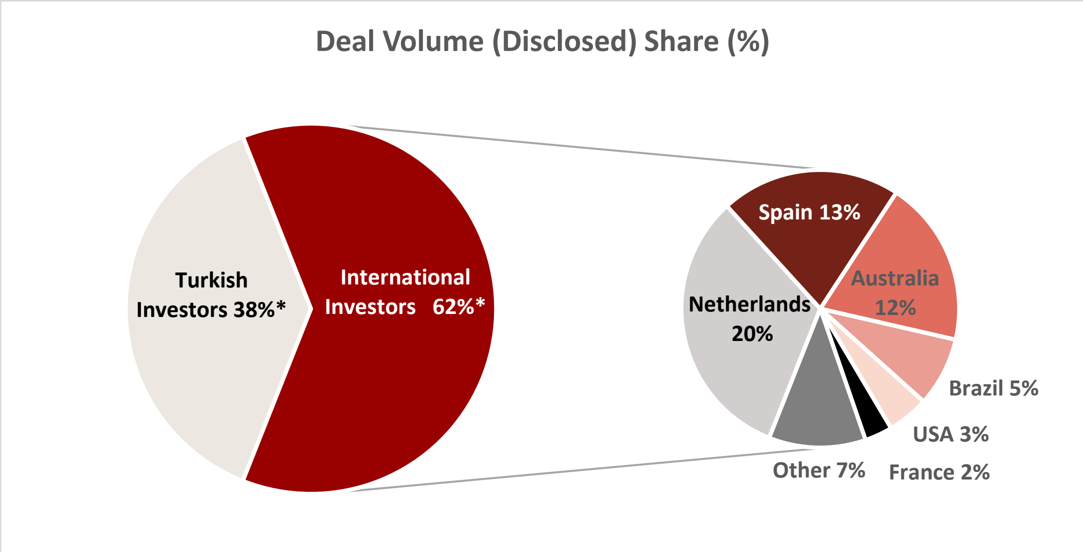
According to the Deloitte's "*Annual Turkish M&A Review 2017 Report"* which provides an overview of the mergers and acquisitions those were took place in Turkey; the total of M&A deals was 298 with the estimated volume of USD 10.3 billion. This estimated volume corresponds to the 41% increase comparing to 2016. In respect to the total number of deals, the activities of venture capitals and angel investors have reached all time high level in 2017.

In regard to the number of deals realized by International Investors, the deals were decreased by 25% compared to last year and recorded as 70 deals. However, the deal volume increased by 45% compared to 2016 and reached USD 5.5 billion. Excluding the privatizations where Turkish investors are more active, the deal volume of the international investors constitutes the 57% of the total volume of the deals. In 2017, the medium- size deals are constituted the total deal volume and the activities of venture capitals and angel investors continued to dominate the deals numbers.

Deal Volume and Deal Number in 2017



Source: Deloitte Annual Turkish M&A Review Report 2017



Soure: Deloitte Annual Turkish M&A Review Report 2017
*(*including non-disclosed deals- Turkish Investors 43%, International Investors 57%)*

In 2017, the number of deals constituted by the EU and the North American investors decreased by 9% compared to 2016, Far Eastern origin investors' deals also followed the same trend. In contrast to this, investors from USA, France, UAE and Japan were at the top of the list in terms of the number of deals.

In regard to deal volume; the European investors' deal volume considerably increased by 65% compared to last year and represented 55% of the total deal volume and remained at the top of the list. This is followed by the 29% share of the Far Eastern Region which placed into the second. In 2017, it was observed that the investors from Spain, France and Japan increased their stakes at their existing investments. Different from the previous years, this year it was also observed that the merger and acquisition transaction in transportation/infrastructure sector was constituted by an Australian investor indicates that Turkey is becoming more attractive for the investors from the different regions other than Europe, USA and Far East.

Target	Sector	Acquirer	Country	Stake	Deal Volume (Million $)
OMV Petrol Ofisi	Energy	Vitol Investment	Netherlands	100%	1.441
Garanti Bank	Financial Services	BBVA	Spain	9,95%	917
Mersin Port	Transportation/ Infrastructure	IFM Investors	Australia	40%	869
Banvit	Food and Beverage	BRF, Qatar Investment Authority (QIA)	Brazil, Qatar	92%	315
Unit International Energy	Energy	SK Engineering	South Korea	30%	177

Technology, internet ve mobile services and energy sectors yet again are the leading sectors in terms of the deal number in 2017. These sectors constituted 43% of the total deal number. Energy sector represented 28% of the total deal volume and became the leading sector as was in the last year. In 2017, infrastructure sector ranked as the second with 15% share of the total deal volume, and it was followed by financial services with a share of 12%. Although the technology, internet and mobile services were the leaders in terms of the number of deals, they were thus behind the other sectors regarding deal volume because of the small sized deals.

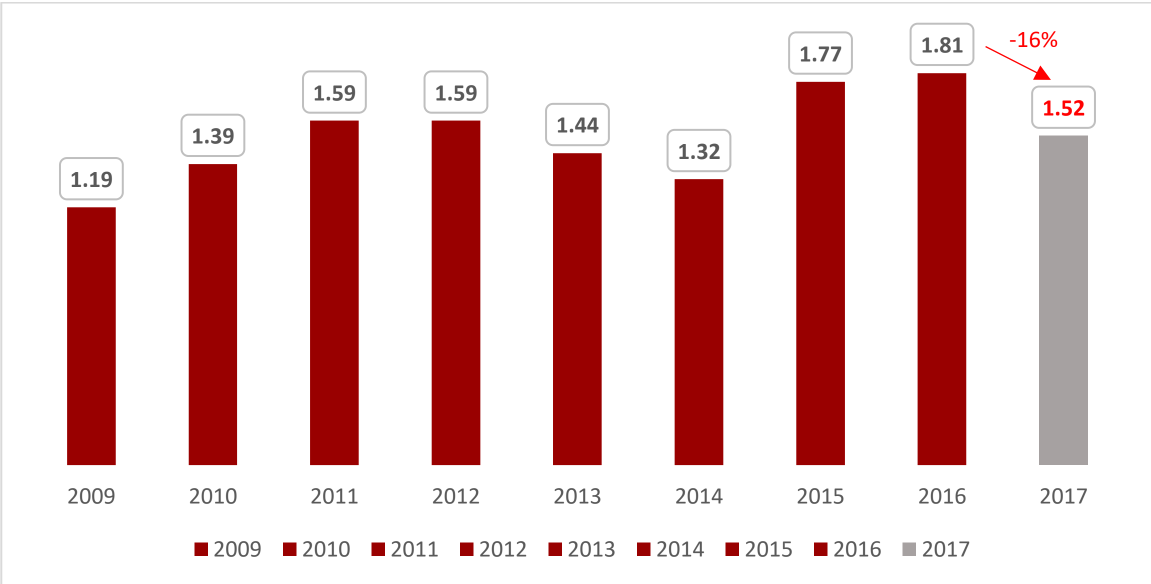
According to Deloitte's report; technology and energy sectors will be remaining at the scope of the investors regarding to the 2018 expectations, and specifically the Turkish companies which are successful in consumer and industrial goods manufacturing are expected to be attractive for the international investors.

According to the EY's 'Mergers and Acquisitions 2017 Report'; it was expected that the small and medium size deals will be leading and the some of the awaiting big size deals will be realized in 2018. It was also mentioned that the contributions of the investors who are expecting to be benefitted from the Turkey's mid-term and long-term growth potential and willing to make Turkey as a regional hub for their operations will be constituted most of the deals.

GLOBAL TRENDS

In regard to the preliminary findings of the World Investment Report which is annually published by United Nations Conference on Trade and Development (UNCTAD); it was estimated that global FDI inflow will be decreased by around 16% and will be recorded as USD 1.52 billion in 2017. The fundamental reason behind this decrease was given as the decrease in the FDI inflows by around 27% to the developed economies namely; the UK, USA and the European countries.

Global International Direct Investments



(Billion $) *Source: UNCTAD Preliminary Findings*

In relation to the spikes of 2016; the decrease which will be expected to be in the inflows to the European and the North American Regions, will in return be cooperated with the 11% increase in the FDI to the other developed countries in the other regions, such as Australia.

Although in the report it is expected that there will be a decrease in FDI to the developed economies in 2017, the developed economies will still be the main recipients of the FDI within the global FDI inflow with a share of 53%. It was also expected that the developed and developing economies will equally share the list of top 10 countries. It was estimated that the US will remain as the top FDI recipient country with USD 311 billion inflow and different from the last year, China and Hong Kong (China) will be placed into the second and third on the list. The main FDI sourcing country to Turkey in 2017; the Netherlands will be expected to be the fourth country on the list with one-layer decrease compared to the last year.

In terms of the regional level, it is projected that the global FDI inflow to the EU countries will be decreased by 26% whereas the Developing Asia will become the most FDI recipient region with a minor increase by 2%.

In 2017, the reason behind the increase in FDI inflows to the Developing Asia where Turkey is classified in by the UNCTAD, was given as the significant increase in the merger and acquisitions in special to Hong Kong, India and Singapore. In the report, it was estimated that the global FDI in 2018 will again be at the same level as was in 2016 and reach USD 1.8 trillion. The reason behind this increase listed as the growth of the developed countries, commodity prices will be turned into the normal level and the increasing of the profitability in the different sectors.

According to the PwC's annual report on 'the *21st Annual Global CEO Survey'*, 57% of the CEOs participated in the survey said that the year of 2017 was the most optimistic year for the global economy after 2010. However, the CEOs are cautiously optimistic for their companies' performance in the next 12- month. However, in the long run they have shared their views that the optimism in the global economy will positively affect the companies' prospects either.

TURKEY'S RANK IN INTERNATIONAL INDEXES

INDEX	TURKEY'S RANK								CHANGE
	2010	2011	2012	2013	2014	2015	2016	2017	
World Bank Ease of Doing Business Index	60	68	72	69	51	63	69	**60**	↑
UNCTAD World Investment Report FDI Inflow Ranking	29	26	24	22	22	20	24	**-**	-
AT Kearney FDI Confidence Index	23	-	13	25<	24	22	-	**-**	-
WEF Global Competitiveness Index	61	59	43	44	45	51	55	**53**	↑
IMD Global Competitiveness Index	48	39	38	37	40	40	38	**47**	↓
Transparency International Corruption Perceptions Index	61	54	53	64	53	66	75	**81**	↓

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- EY Merger and Acquisition 2017 Report
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- International Indexes

  - World Bank Doing Business – www.doingbusiness.org
  - UNCTAD – www.unctad.org
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  - World Economic Forum – www.weforum.org
  - Institute for Management Development – www.imd.ch
  - Transparency International - https://www.transparency.org