

Ipsos MORI

Reputation of Capital Markets and Good Corporate Governance in Turkey

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SHIFT Communications & Relationship Management

May 27th, 2006

- **Three parts to the survey:**

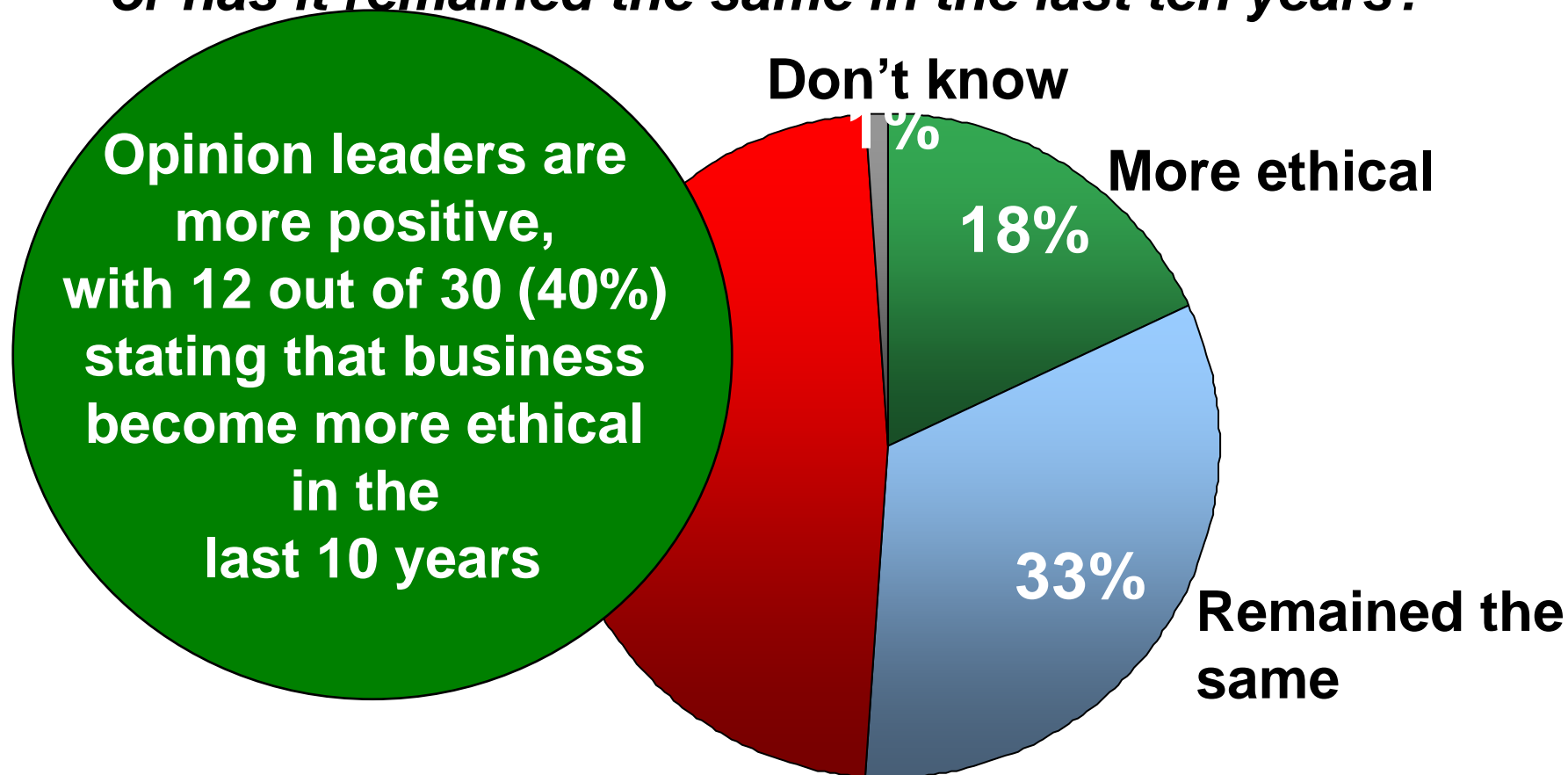
- ***Informed public*** – Face-to-face interview with 600 members of general public aged 25+ with at least 12 years of full-time education;
- ***Turkish Opinion Leaders*** - In-dept interviews with 30 leading names in media, business and voluntary sector; and
- ***Analysts*** – In-depth interviews with ten specialists of emerging markets, based in the UK (five) or USA (five).

- **Field work conducted between 8 October-25 November 2005**

Business and Good Corporate Governance in Turkey

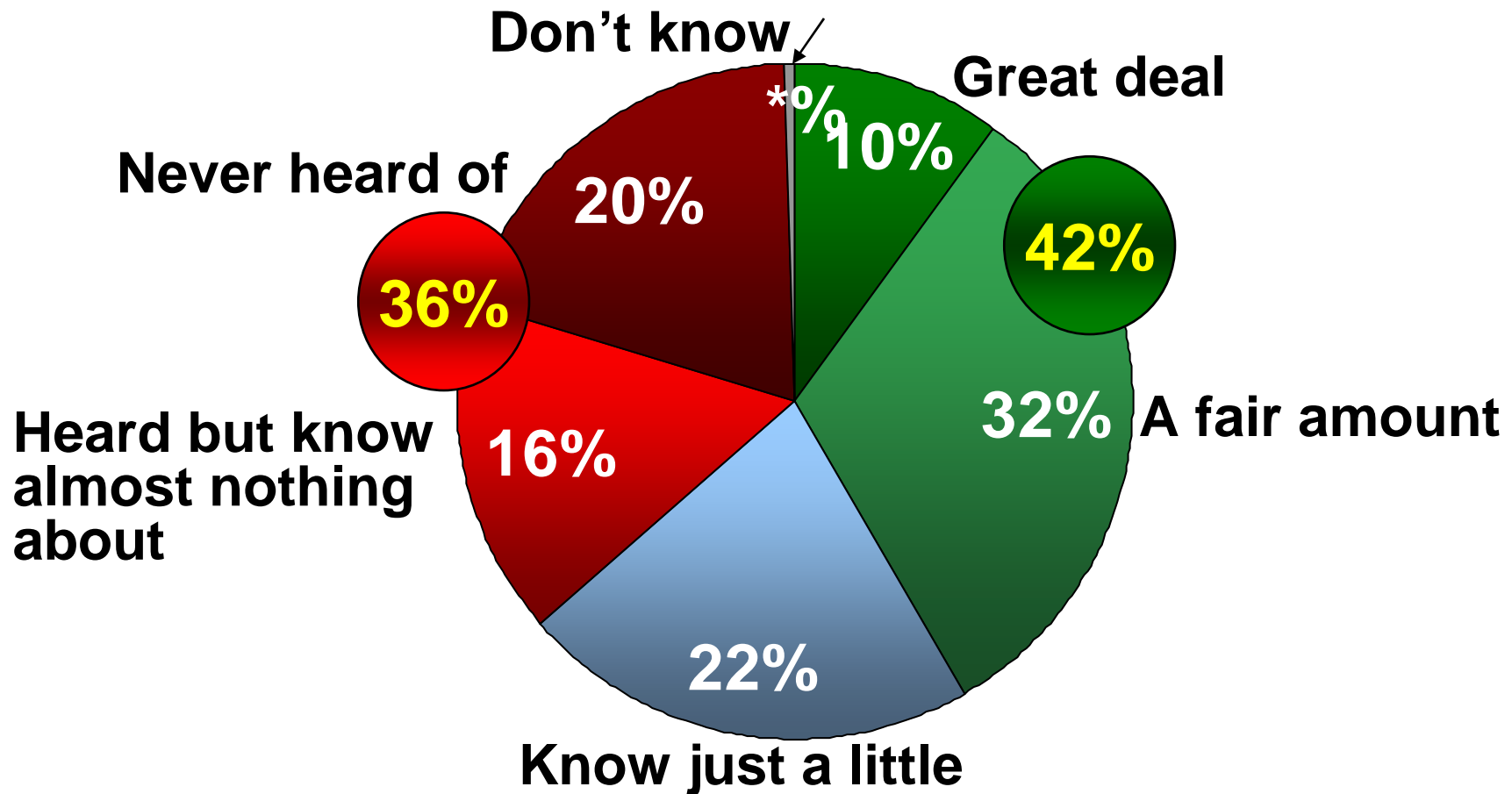
Perceived Change in the Business Culture in Turkey

Q *Has business in Turkey become more ethical or more corrupt or has it remained the same in the last ten years?*



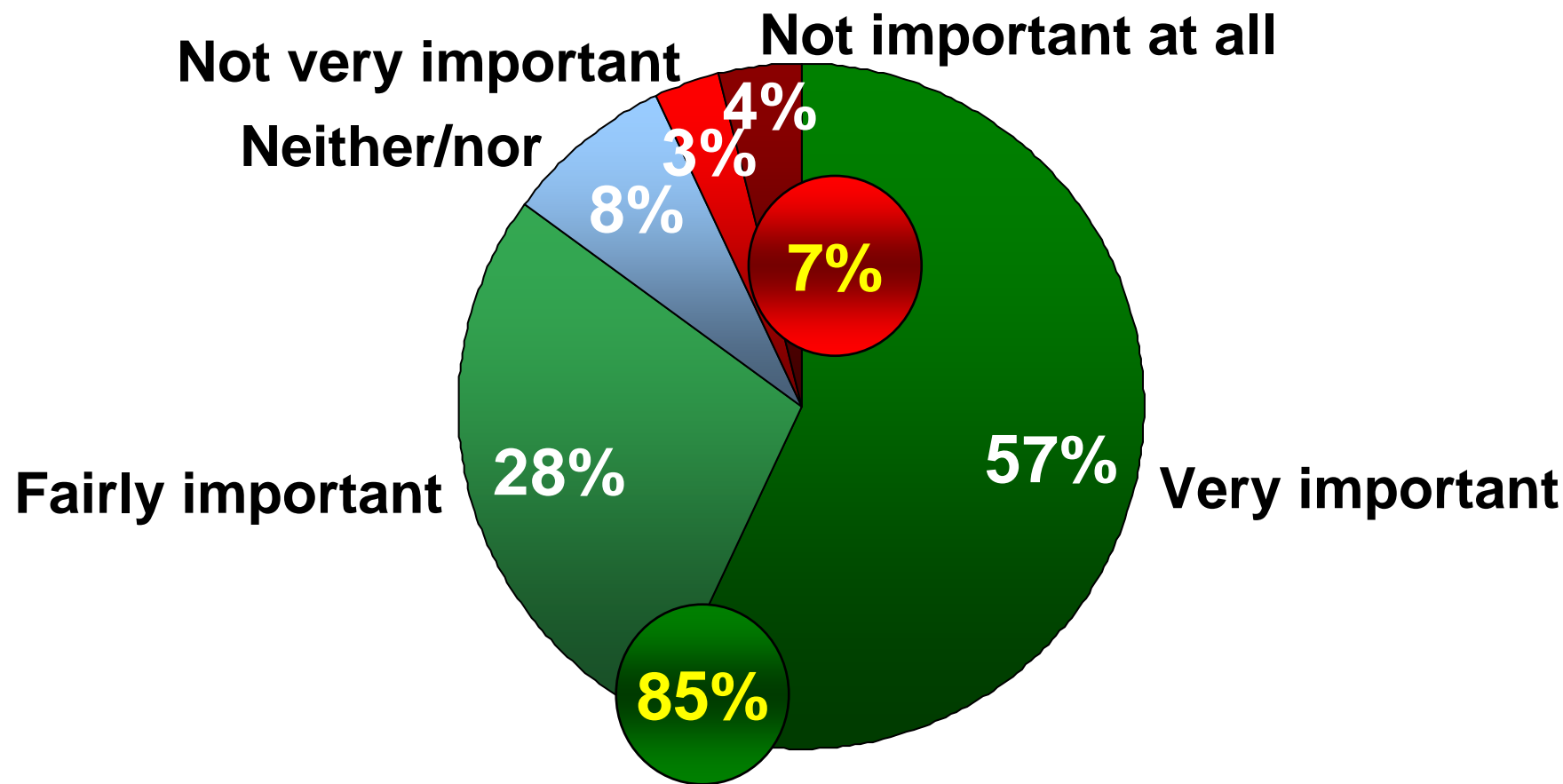
Awareness of Corporate Governance

Q *How much, if at all, do you know about Corporate Governance?*



Importance of Good Corporate Governance

Q On a scale of one to five where five is very important and one is not important at all, how important are Business Ethics and Good Corporate Governance for the prosperity of Turkey?

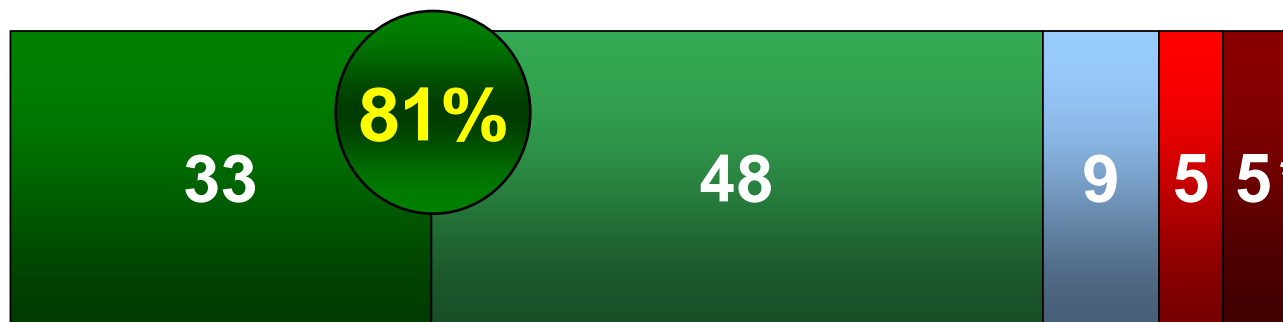


Understanding of the Good Corporate Governance among informed public

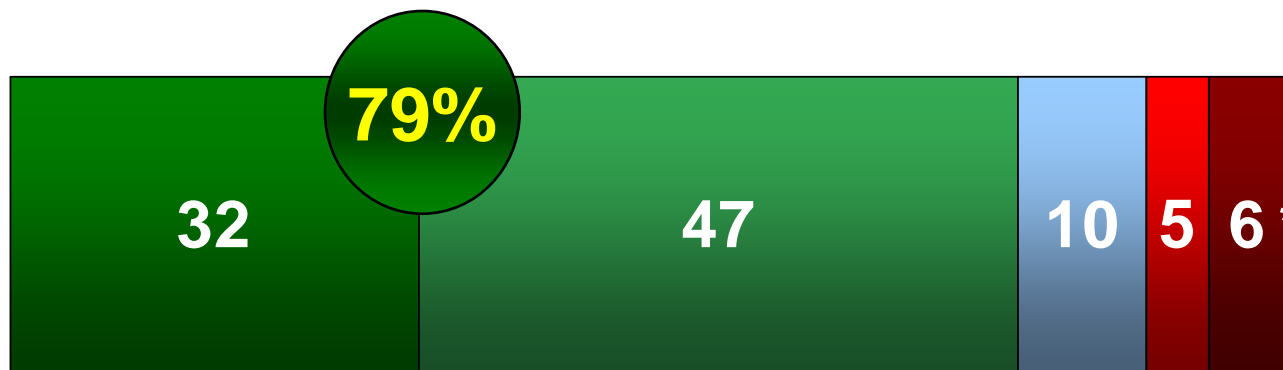
Q To what extent do you agree or disagree with each statement?

■ % Strongly agree ■ % Tend to agree ■ % Neither /nor ■ % Tend to disagree ■ % Strongly disagree ■ % Don't know

Corporate social responsibility helps companies building a strong reputation



Trust and reputation of a company increases its market value



Understanding of Good Corporate Governance among opinion leaders

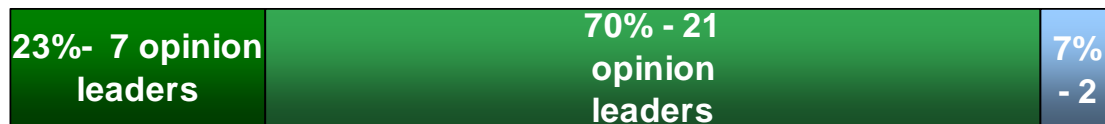
Q *I would like you to tell me to what extent do you agree or disagree with each one.*

■ Strongly agree
 ■ Tend to agree
 ■ Neither /nor
 ■ Tend to disagree
 ■ Strongly disagree
 ■ Don't know

Trust and reputation of a company increases its market value



Good Corporate Governance helps increasing the interest of the public



All non-quoted companies should consider using Good Corporate Governance practices



Good Corporate Governance is the guarantee for sustainability

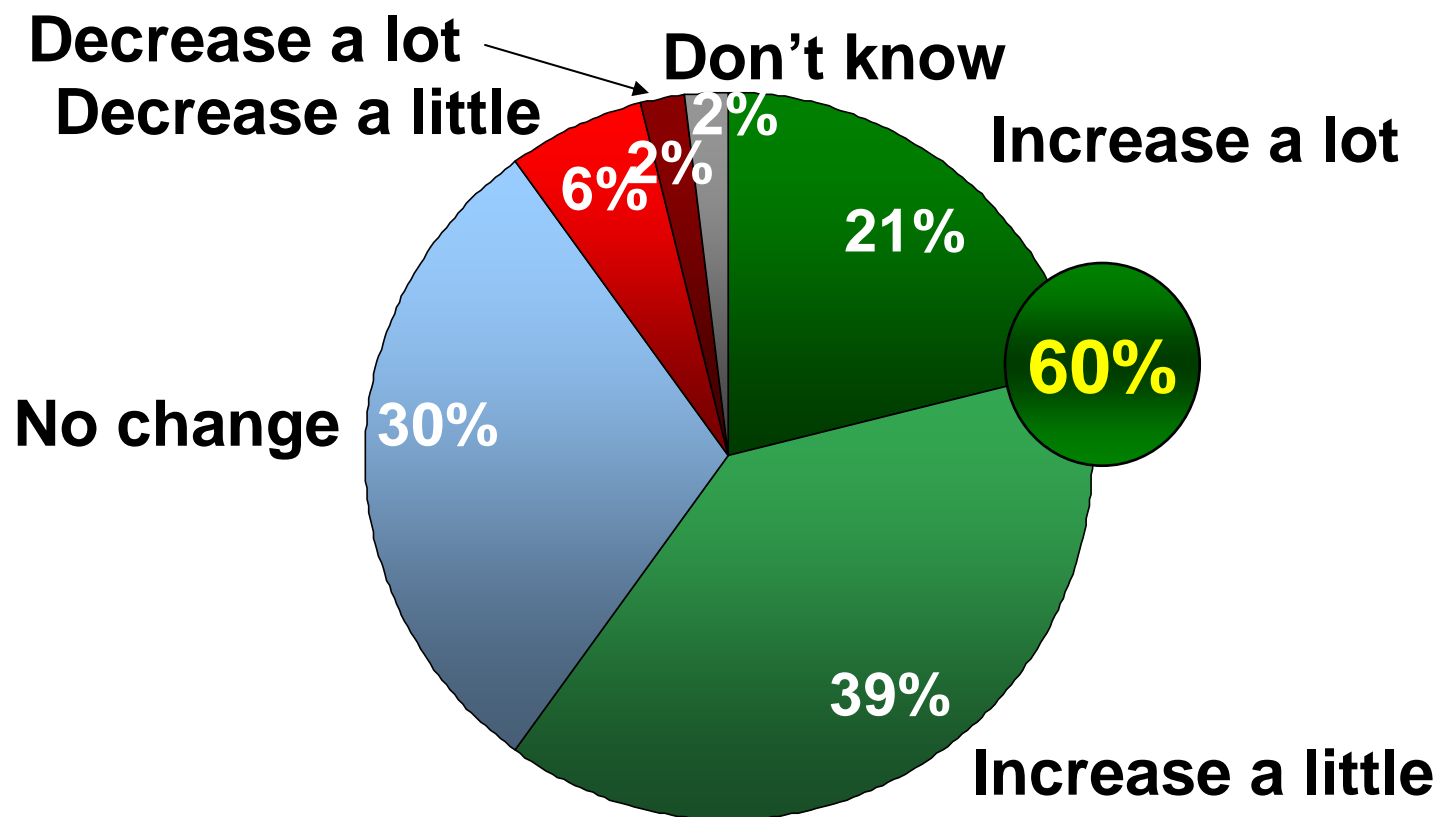


Good Corporate Governance decreases profitability



Change in the Importance of Good Corporate Governance

Q To what extent, do you expect Business Ethics and Good Corporate Governance to increase or decrease its importance for investors in the next five years?

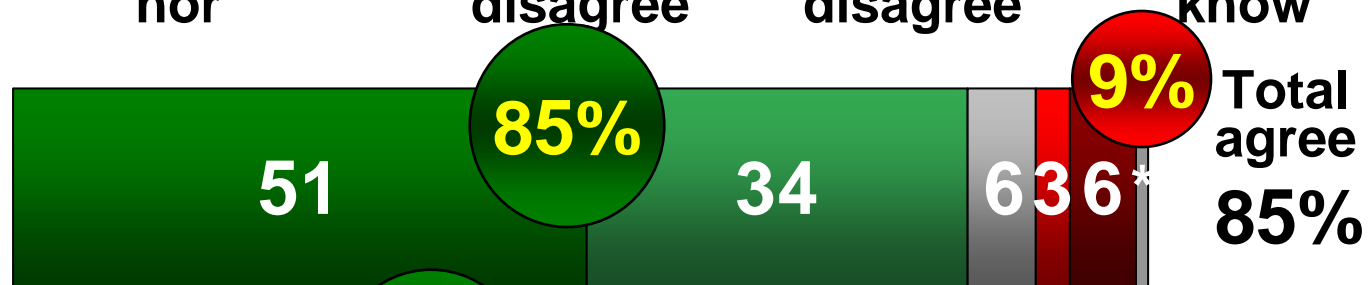


Attitudes towards Good Corporate Governance

Q *I would like you to tell me to what extent do you agree or disagree with the following statements.*

■ % Strongly agree
 ■ % Tend to agree
 ■ % Neither/nor
 ■ % Tend to disagree
 ■ % Strongly disagree
 ■ % Don't know

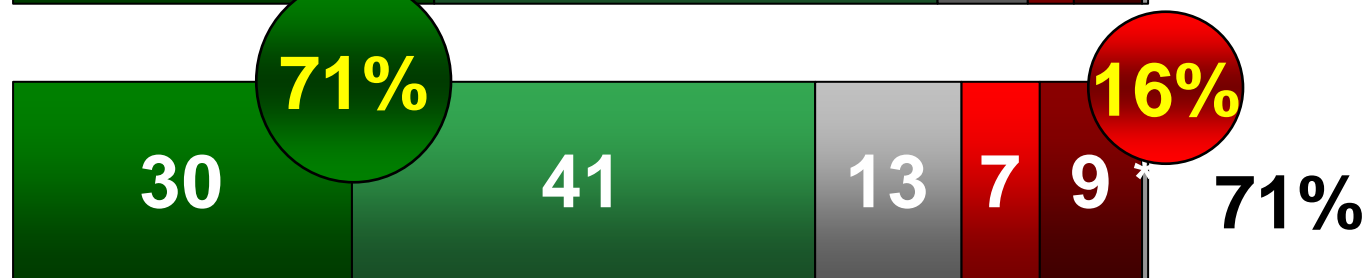
It is important that the company I work for has Business Ethics and Good Corporate Governance



Good Public Governance is a pre-requisite of Good Corporate Governance



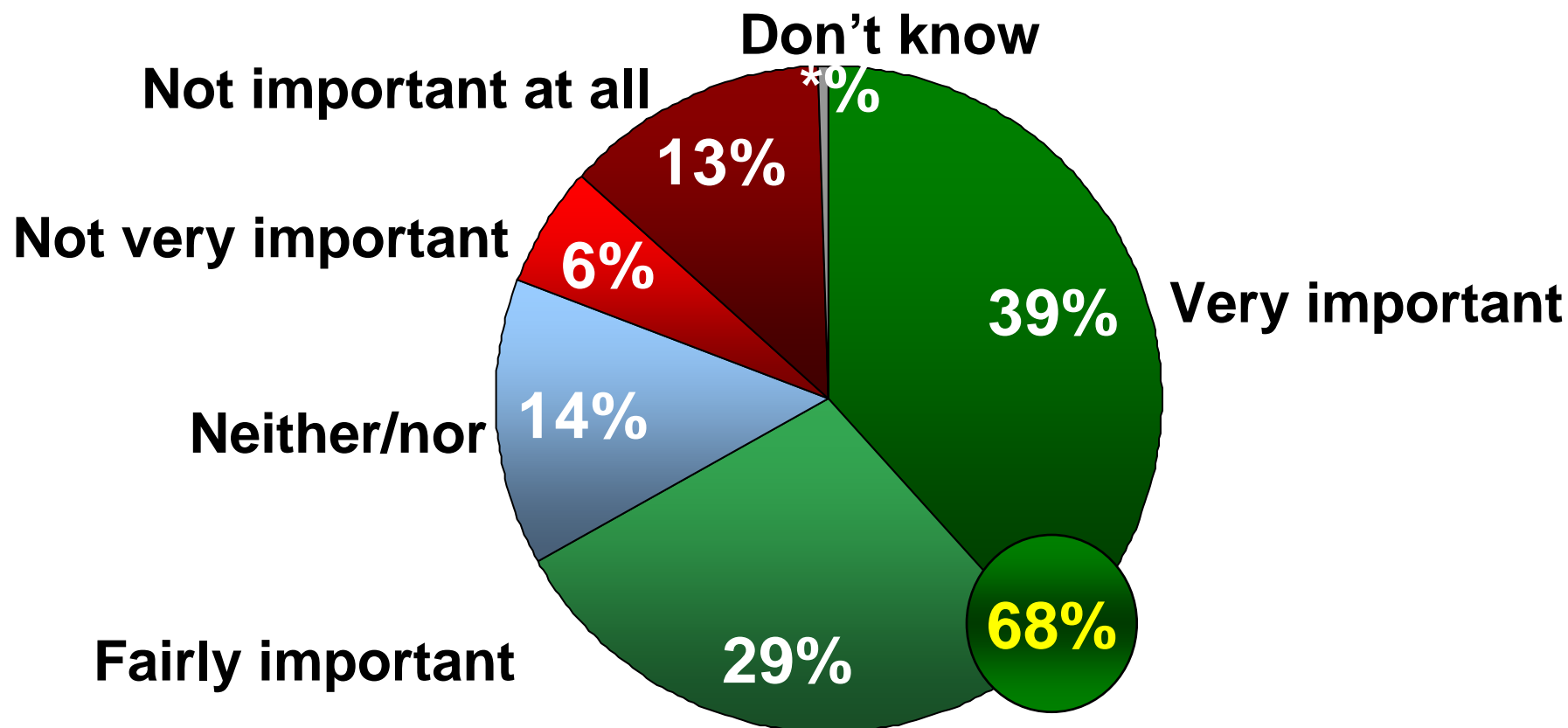
The process to full EU membership will affect Public and Corporate Governance positively



Foreign Investment and Good Corporate Governance

Importance of Foreign Investment in Turkey

Q *On a scale of one to five where five is very important and one is not important at all, how important do you think foreign investment is for the prosperity of Turkey?*



Foreign Investors' Perceptions of Turkey as a Country to Invest in

"The environment is becoming more predictable, regulations are becoming stronger and overall economy is improving"

Analyst, UK

"Turkey is rapidly implementing a number of market reforms, making itself incrementally a safer place to invest... Turkey is under-penetrated. number of cars, number of medicines, all have potential to grow substantially...The growth in Europe is only 1% , Turkey's growth is 6% at the moment but this will not necessarily be every year"

Analyst, USA

How Turkey Compares to Other Emerging Markets? – Opinion Leaders

Q Could you rate the following emerging markets in terms of Good Corporate Governance practices on a scale of one to ten where one is very poor and ten is very good.

	Opinion leaders	
	Score 8-10	Score 1-3
China	12	3
Poland	8	0
Brazil	7	0
Malaysia	5	1
Turkey	5	1
Thailand	5	5
India	4	2
Russia	4	4
Mexico	3	2
Indonesia	3	4
Argentina	1	7
Philippines	1	7
Azerbaijan	1	12
Peru	0	4
Egypt	0	7
Kazakhstan	0	16

How Turkey Compares to Other Emerging Markets? – Analysts

Q *Could you rate the following emerging markets in terms of Good Corporate Governance practices on a scale of one to ten where one is very poor and ten is very good.*

	Analysts	
	Score 8-10	Score 1-3
Poland	2	6
Brazil	1	0
Malaysia	1	0
Mexico	1	0
Turkey	1	0
Thailand	1	0
China	0	0
India	0	1
Russia	0	1
Indonesia	0	1
Philippines	0	1
Peru	0	1
Argentina	0	2
Egypt	0	2
Azerbaijan	0	5
Kazakhstan	0	26

Base: 30 Opinion leaders, 26 October -15 November 2005

Perceptions of Foreign Investors in Turkey

“Investment groups that have high return expectations(...) Since risk and return are related concepts, as risk increases so do returns. This type of investor group especially focuses on such markets”

Opinion Leader, NGO

“First of all, they must be people who like to take over risks. They must certainly be flexible enough to adapt itself to a new environment in a new culture (...) Regulation is always good but it is also important that the regulation stops within certain limits. If you are too regulating, it is very difficult for you to develop in such developing countries or maintain your existence in the emerging markets”

***Opinion Leader,
Private Sector***

Perception of Foreign Investors in Turkey

Q What are the three most important criteria for foreign investors when investing in Turkey?

	Informed Public	Opinion Leaders	Analysts
Base: People	600	30	10
	%	%	%
Profitability or return on investment	65	47	40
Political stability	43	57	30
Labour Cost	42	3	10
Country risk	33	40	30
Geographical advantage	21	17	10
Quality of management	16	3	0
Good Corporate Governance	13	23	0
Rules and regulations in place (e.g.. compliance with the EU)	12	57	50
Strategic planning	12	23	0

Importance of Good Corporate Governance for Foreign Investors

“Every investor that intends to stay for a long time in the country that the investment is made, naturally places importance on the public administration and the stability in that country”

Opinion leader,
Private Sector

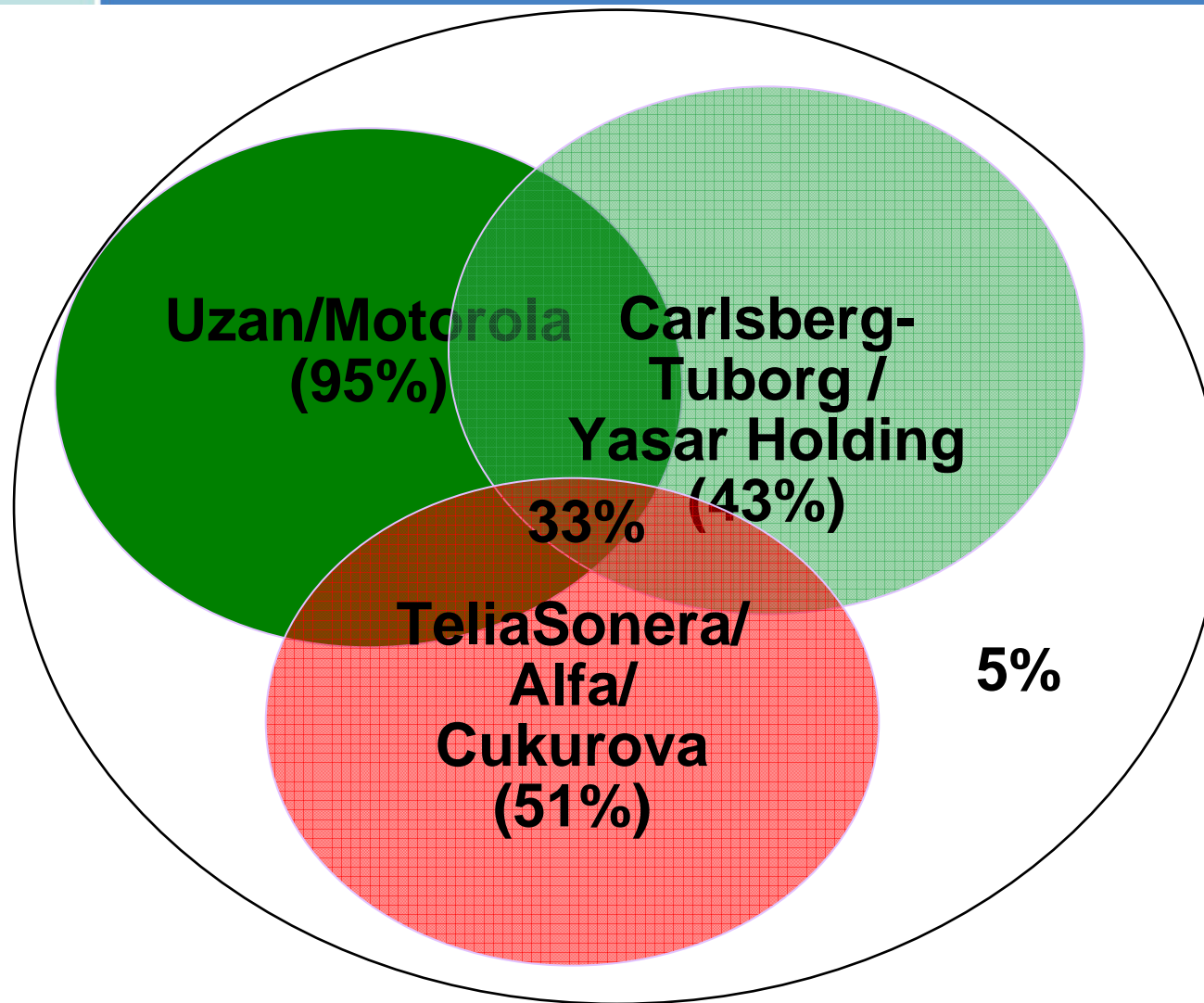
“This is an important factor for everyone”

Opinion leader,
Media

“Pension Funds are the ones who look for good practices particularly”

Analyst, UK

Awareness of Recent Disputes – Informed Public

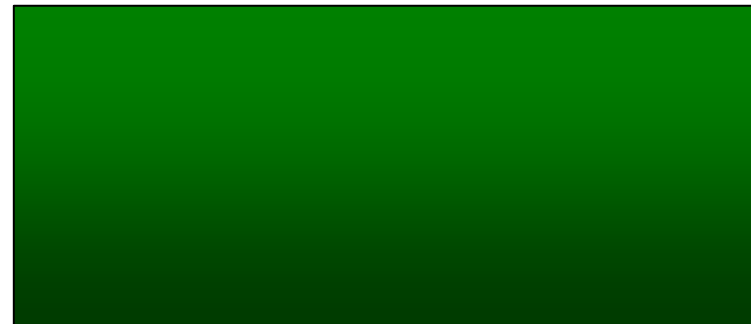


Impact of Recent Disputes on Foreign Investment – Informed Public

Q Do you think this type of dispute deters foreign investors ?

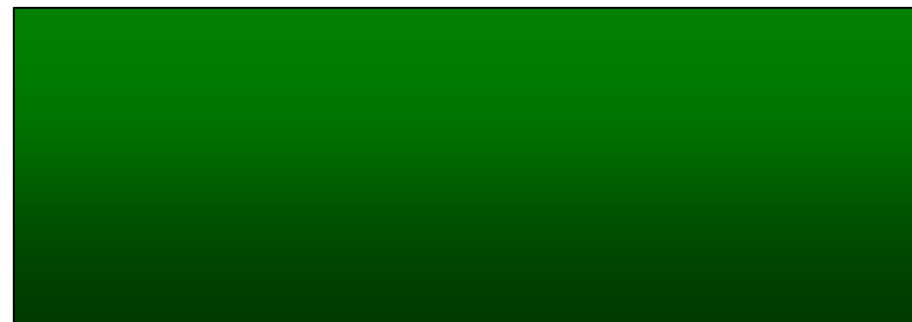
% deters

Informed Public



48%

**All who have heard of
all three disputes**



58%

Impact of Recent Disputes on Foreign Investment – Opinion Leaders

“It will certainly deter. It is already deterring. When you look at a big scale country like Turkey, it has nearly no investment outside the portfolio investment. They are coming with an annual amount of about \$700 to 800 million. Under normal circumstances a country like Turkey should be attracting about \$10 to 12 billion. As we regard Russia as the land of the Mafia, they see us in similar terms.”

**Opinion
Leader,
Broker**

Impact of Recent Disputes on Foreign Investment – Analysts

“I don’t think it deters because the returns have been consistently good anyway”

USA

“Deters massively but hopefully these days are behind them”

UK

Impact of Recent Disputes on Turkey's Accession to EU – Opinion Leaders

“It will not be affected. I think of this as a totally economic issue between two companies. It does not concern the countries”

Broker

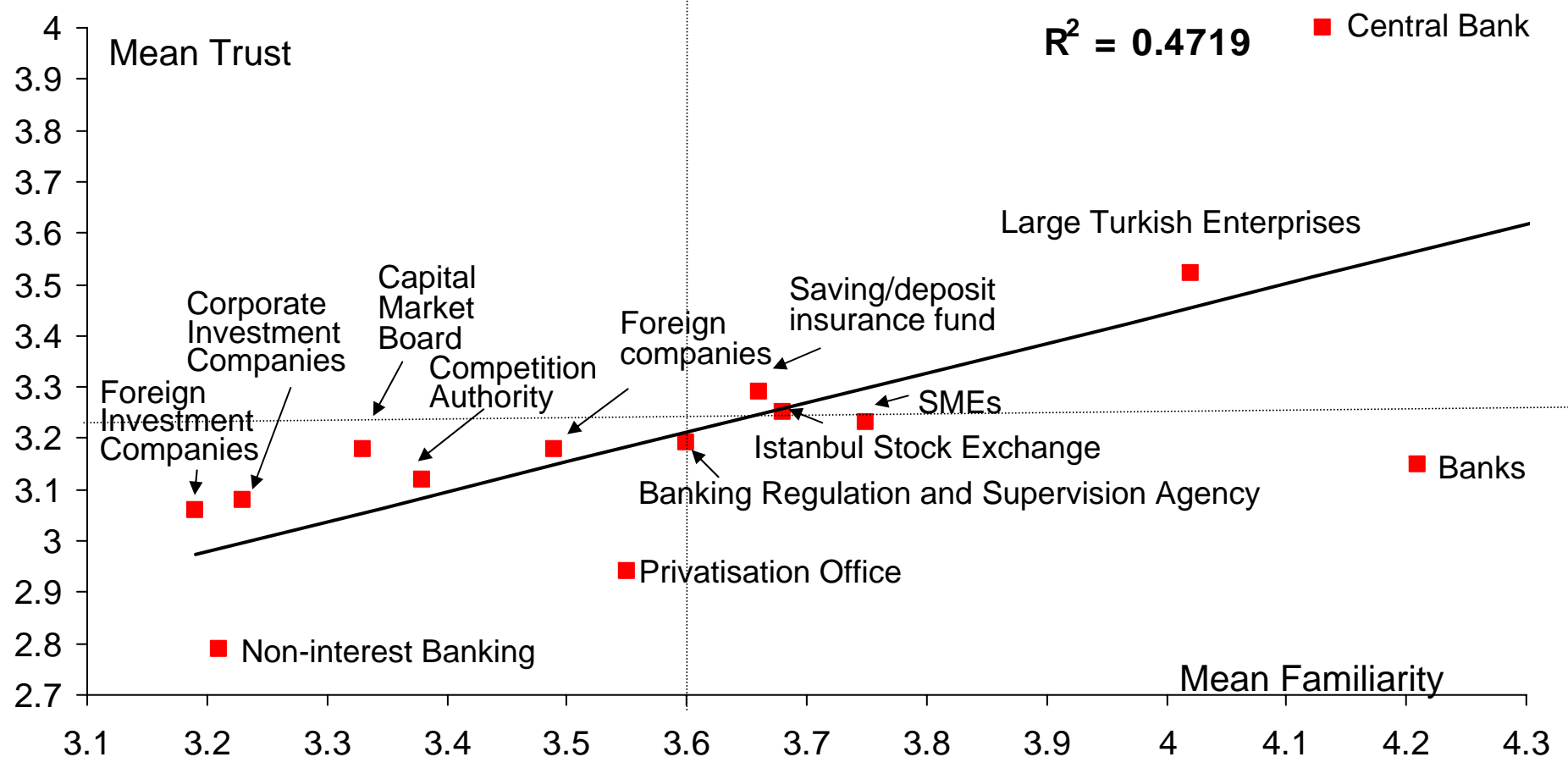
“In the membership discussions with the EU I believe at least some of these will become issues to be discussed. No matter what, if there are applications outside the EU criteria, and if these are widely used by the public, these will certainly be raised during the discussions. EU has criteria for transparency”

Private sector

Domestic Investment and Good Corporate Governance

Familiarity and Trust

- Q I would like you to tell me how well you feel you know about each of the following.
- Q On a scale of one to five where five is very trustworthy and one is not trustworthy at all, how trustworthy or untrustworthy do you think each of these institutions are?

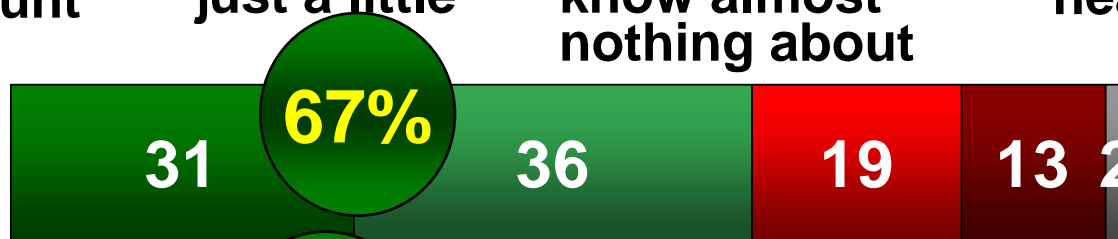


Knowledge about Bonds and Shares

Q I would like you to tell me how well you feel you know each

% Know very well % Know a fair amount % Know just a little % Heard of but know almost nothing about % Never heard of

Government Bonds



A and B type bonds



Company shares



Corporate Bonds



Base: People aged 25+ with at least 12 years of full-time education (600), 8 -31 Oct.2005

Choice of Investment

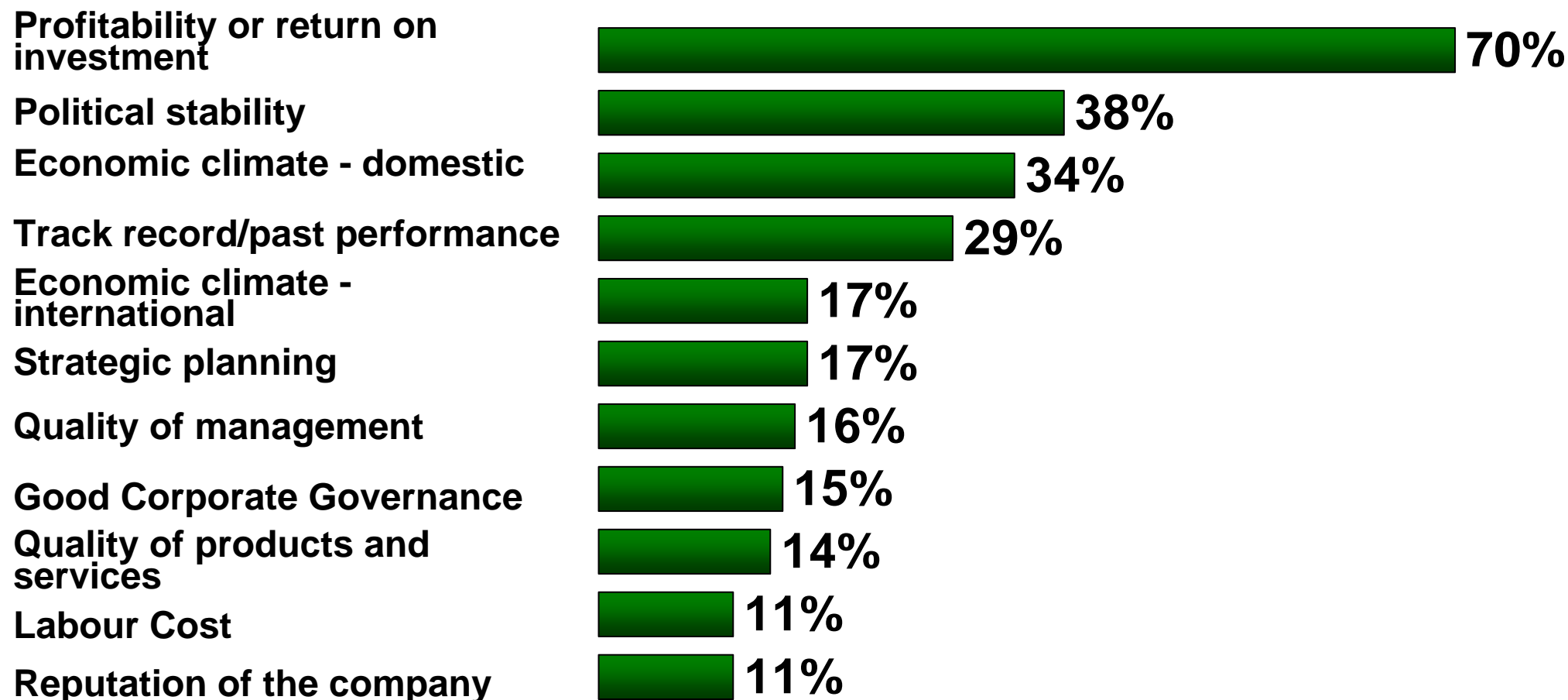
Q *If you had 5.000 YTL/50.000 YTL to invest today, what would you invest in?*

	5.000 YTL	50.000 YTL
Base: People (600)	%	%
Gold coins, jewellery	43	23
Saving account	29	25
Land	27	43
Property	22	71
A and B type bonds	15	14
Stock market	12	12
Government Bonds	10	13
Foreign currency	6	*
My own trade	2	4
Get out of debt	*	2
Company shares	1	1
Corporate Bonds	1	1
Other	9	8
None of these	2	*

Base: People aged 25+ with at least 12 years of full-time education (600), 8th - 31st October 2005

Criteria when Investing in the Stock Market

Q *What would the three most important criteria be for you when investing in stock market or a company?*



Propensity to Invest in Stock Market

22% of the variation
in this statement
has been explained
by the significant
factors

**Willing to invest
in stock market**

30%

Knowledge of
government bonds

-15%

Knowledge of corporate
bonds

12%

Lives in Istanbul

8%

Importance of business
ethics and good
corporate governance

7%

Aged 25-34

7%

Trust in Istanbul Stock
Exchange

-7%

Milliyet reader

7%

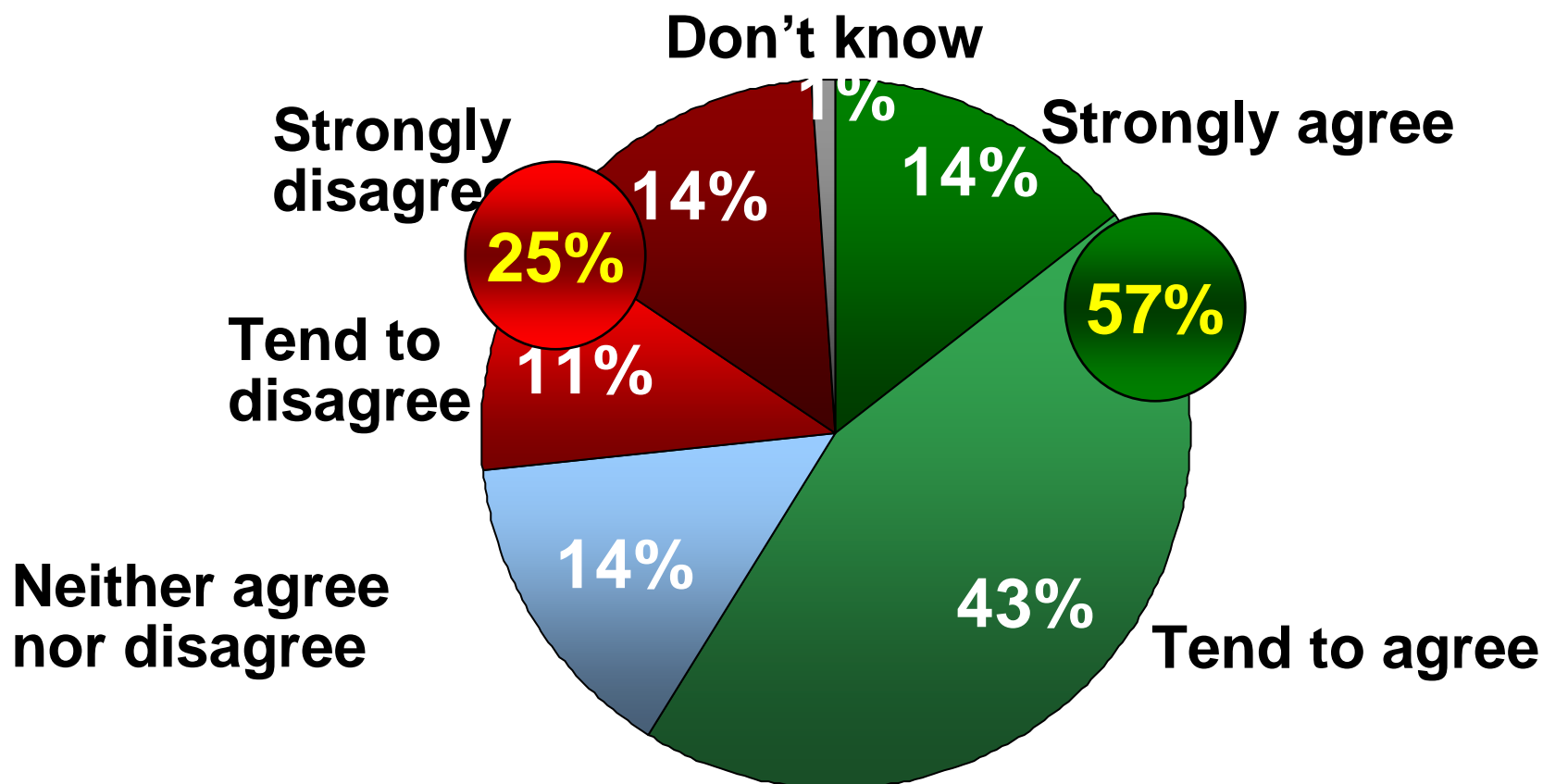
Has one car

-6%

Social Grade C1

Stock Market and Good Corporate Governance

Q *To what extent do you agree or disagree with I would be more interested in investing in shares/stock market if good corporate governance practices were more common than they are now.*



Key Drivers of Propensity to invest if Good Corporate Governance principles were more common than they are now

27% of the variation in this statement has been explained by the significant factors

More interested in investing with good corporate governance

19%

Trust and Reputation

11%

Corporate social responsibility

10%

No decline in the business culture in the last 10 years

9%

Has one car

9%

Aged 45-54

-9%

Invest in gold coins if 50,000 YTL

9%

Trust Istanbul Stock Exchange

8%

Knowledge of company shares

8%

Invest in savings account if 5,000 YTL

7%

Trust in Central bank

Improving Corporate Governance in Turkey

Improving Public and Corporate Governance in Turkey

Q In your opinion, how well or badly are the following organisations performing in Turkey?

	Opinion Leaders	Analysts
Base: People who rate the following organisations' performances very or fairly well	30	10
	%	%
Telecommunication Authority	67	10
Istanbul Stock Exchange (IMKB)	57	50
Banking Regulation and Supervision Agency (BDDK)	57	70
Saving Deposits Insurance Fund (TMSF)	57	80
Capital Market Board (SPK)	47	60
Competition Authority	33	10

Impact of Recent Disputes on Foreign Investment – Analysts

- ***Fairly adequate, they have been working closely with the IMF, slowly putting in place the kind of rules and regulations you would like to see***

Analyst, USA

- ***The government and the parliament are making some progress in the areas of reforms and the stability with pressures from EU and IMF. However the staffing and the functioning of some institutions are so weak that they affect the whole system and hold it back***

Opinion leader, Media

Suggestions for Improvement –Government

- More transparent, smaller government, less bureaucracy
- Accountable politicians, better democracy
- More regulations and forward planning, independent regulatory bodies

“The most important task of the public management is to provide transparency to the public”

**Opinion leaders,
Media**

“There are 60 Istanbul MPs but you can not apply to any of them to tell the problem in your street because they don’t know either your problem or your street.”

“The biggest advantage of the attempt to be an EU member is to take all the developed countries and societies as a model. We have a guide”

Opinion leader, Private Sector

Suggestions for Improvement – Legal System

***“Need to work
on the judicial
system.
The rules are
adequate but not
necessarily
adequately
enforced”***

Analyst, USA

***“The legislative system must be
efficient and conclude the
court cases in the shortest
time possible.”***

Opinion leader, NGO

Suggestions for Improvement – Education Policies

“It is a matter of education and culture, a generation change”

“..we see that there is a need for a reform in the education system. The main subject is to bring up the qualified work force that Turkey needs”

Opinion leaders, NGOs

Suggestions for Improvement – Market

“Both in the public and institutional administration, permissive behaviour needs to be eliminated”

Opinion Leader, NGO

“First the TTC (Turkish Trade Code) must change. Forcing articles should be incorporated seriously into the Turkish Trade Code. The audit committee should be revived seriously. Independent audits must be compulsory for both public and non-public companies over a certain size”

Opinion Leader, Private sector

Suggestions for Improvement – Private Sector

“It would be on the level of private businesses to increase the awareness. If this happens the more people will listen”

Analyst, UK

“I believe, especially on this subject, private sector establishments have to do their part. The chambers, stock market association, industrialists, the associations of the businessmen must increase the awareness of their members on this subject and must take the leadership role. Likewise, I think the public sector must form a long term perspective for sustainable long-term development in Turkey both for their own institutions and for the foreign overseas investors”

Opinion leader, private sector

Suggestions for Improvement – NGOs

“...the effectiveness of NGOs in Turkey should be increased and nurtured, it is far behind. The government is still solely effective. NGOs have started to be effective in the law and regulations in the last year. I think that if this is developed a little more, if NGOs have effect on the management decisions in the coming five years, then a proper system would arise”

Suggestions for Improvement – More research

***“I think this is a long process.
Not an easy short-term problem.
We have to evaluate the thoughts and
attitudes as Turks.
First, we have to be a tolerant society
capable of listening to each other.
We have to eliminate the understanding
that I am government or bureaucracy”***

Opinion leader, media

***“I believe that there
should be different
R&D studies
carried out in the
government and the
private sector,
and global examples
should
be referred to”***

Opinion leader, NGO

Thank you

**For further information, contact
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Suggestions for Improvement – Government

- **More transparent, smaller government and less bureaucracy**

The most important task of the public management is to provide transparency to the public along with the necessary A smaller state would be more transparent(...)

Opinion leader, Media

- **Accountable politicians, better democracy and independent regulatory bodies**

There are 60 Istanbul MPs but you can not apply to any of them to tell the problem in your street because they don't know either your problem or your street

Opinion leader, Media

- **More regulations and forward planning**

The biggest advantage of the attempt to be a EU member is to take all the developed countries and societies as a model. We have a guide

Opinion leader, Private sector

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Analyst, USA

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Opinion Leader, NGO

- ***First of all, they must be people who like to take over risks. They must certainly be flexible enough to adapt itself to a new environment in a new culture (...) Regulation is always good but it is also important that the regulation stops within certain limits. If you are too regulating, it is very difficult for you to develop in such developing countries or maintain your existence in the emerging markets***

Opinion Leader, Private sector

Importance of Good Corporate Governance for Foreign Investors

- *Every investor that intends to stay for a long time in the country that the investment is made, naturally places importance on the public administration and the stability in that country*

Opinion leader, Private sector

- *Pension Funds, they are the ones who look for good practices particularly*

Analyst, UK

- *This is an important factor for everyone*

Opinion leader, Media