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Investment Support and Promotion Agency of Turkey

TURKISH TOURISM INDUSTRY REPORT

JANUARY 2010



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1. Executive Summary

Tourism is one of the largest industries in the world providing a strong momentum to global economic development employing more than 210 million people worldwide (7.6% of global employment). In 2009, the industry generated an estimated US\$ 5,474 billion of economic activity, which accounted for 9.4% of global GDP, down from 9.6% in 2008.¹

Global recession and health scares, high oil prices and exchange rate fluctuations caused a 3.5% drop in world tourism direct industry GDP in 2009.² However, historical trends show that the tourism industry is more volatile than global GDP, making higher peaks in “good” years and deeper troughs in “bad” years. We may now be approaching a renewed progression phase with expected growth rates averaging around 6%-7% per annum compared to an average growth rate of 3%-4% for world GDP.³ Approaching this growth stage, public-private partnerships are highlighted as the main key to achieving success in the World Economic Forum’s 2009 issue of the Travel & Tourism Competitiveness Report.

Turkey has a long and exceptionally attractive coastline, many natural attractions, unique historical and archaeological sites, a suitable climate, improving touristic infrastructure and a tradition of hospitality. Accordingly the Turkish tourism sector has been one of the most important drivers behind Turkey’s economic development over recent decades. In 2009, combined with the travel sector, the industry generated TL 95.3 billion of economic activity (approximately 10.2% of Turkey’s GDP) with an employment of approximately 1.7 million people (7.2% of total employment).⁴

Germany, the United Kingdom and the Russian Federation are the top sources of tourists to Turkey, together comprising approximately 36% of all international arrivals. Antalya and Istanbul are the most popular cities attracting approximately 60% of all arrivals. Currently, hotels in Turkey have a capacity of 567,470 beds. In addition there are many hotels in an investment stage with an additional capacity of 258,287 beds. The CAGR in bed capacity between 1998 and 2008 has been 6.1%.⁵

Until 2002, the Turkish aviation market was a monopoly for the national operator, THY. After 2002, various liberalisation steps were taken, which resulted in a rapid increase in the number of domestic passengers, recording a CAGR of 25.2% between 2002 and 2008. In the same period, the number of international passengers grew with a CAGR of 8.5%. At present, there are 5 airline operators owning a total of 270 aircraft.⁶

The Ministry of Culture and Tourism has issued the “Tourism Strategy for Turkey – 2023” to set a framework and roadmap for investors considering investment in Turkey. Within this framework, the government wishes to make maximum use of the country’s tourism potential and provides various forms of support.

Most tourism up to now has been coastal tourism. Further expansion of coastal tourism is expected, but there is also considerable potential for health & thermal spas, winter tourism, mountaineering, congress and expo and golf, among others.

Istanbul is a European Capital of Culture 2010 along with Peç (Hungary) and Essen (Germany). The European Capital of Culture is a city designated by the European Union for a period of one calendar year during which it is given a chance to showcase its cultural life and cultural development. Istanbul 2010 is expected to bring many benefits and a significant income for the industry. Despite the onset of the global economic downturn, the Turkish tourism industry managed to achieve growth and record its best year ever in 2008, followed by a minor drop in 2009. The outlook is also strong and the industry is expected to support Turkey’s future GDP growth while creating new jobs and improving the country’s balance of payments.

¹ Travel & Tourism Economic Impact, WTTC, 2009

² Global Travel & Tourism Update, WTTC, November 2009

³ WTTC, EIU, 2009

⁴ The Travel & Tourism Competitiveness Report, World Economic Forum, 2009

⁵ Ministry of Culture and Tourism, 2009

⁶ SHGM, Directorate General of Civil Aviation, 2009



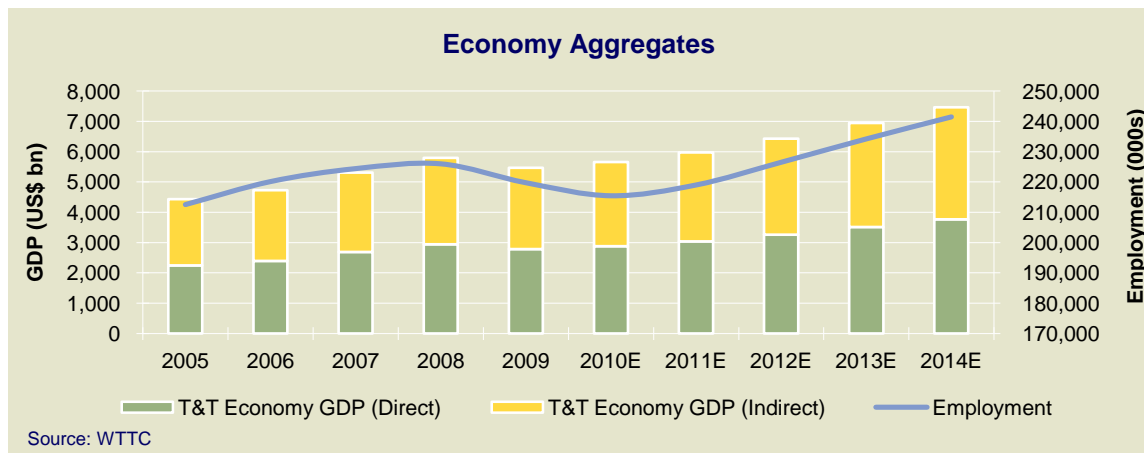
2. Sector Overview

2.1 Global Sector

Tourism is one of the largest industries in the world providing a strong momentum to global economic development and employing more than 210 million people worldwide (7.6% of global employment). In 2009, the industry generated US\$ 5,474 billion of economic activity, which accounted for 9.4% of global GDP, down from 9.6% in 2008.⁷

During the past two years, the industry has faced many challenges mainly because of terror and health scares, natural disasters, high oil prices, and exchange rate fluctuations. After a healthy growth period of four years averaging at 3.6% per annum, world tourism direct industry GDP growth decreased to 1% in 2008, followed by a contraction of approximately 3.5% in 2009 levelling at US\$ 1,870 billion. However, in the medium and long term, the industry's growth rate is expected to recover to an average of 4% in real terms, creating 6 to 8 million new jobs each year.⁸ Unprecedented monetary and fiscal stimuli, reviving credit markets and recovering asset prices are highlighted as key drivers of recovery.

Figure 1 - Tourism Economy Aggregates



⁷ Travel & Tourism Economic Impact, WTTC, 2009

⁸ Global Travel & Tourism Update, WTTC, November 2009



Global tourism demand grew with a CAGR of 9.8% between 2004 and 2008 followed by a drop of 6.4% in 2009 levelling at US\$ 7,340 billion.⁹ The U.S. dominates global demand with a share of 22%. Visitor and other exports (“other” largely being merchandise) is also dominated by the U.S. followed by Spain and France.

Figure 2 – Global Tourism Economy



In terms of number of arrivals, France took the first place in 2008 with 79.3 million visitors preceded by the United States and Spain. Turkey took the 8th place with 25 million international arrivals.

Figure 3 - International Tourist Arrivals



The travel industry, in particular, has been badly hit by the volatility of the oil prices and exchange rates in the last two years. In 2008, strong growth in global oil demand led to rapid increase in oil prices, peaking at US\$140/barrel in July.¹⁰ The effects of the global economic downturn were to reduce oil prices even more rapidly, down to US\$34/barrel in late 2008. In addition to the damage due to increasing oil prices, many airlines failed to enjoy this downward trend because of having hedged at a higher price than the market. From 2009 onwards, however, oil prices resumed their upward trend exceeding US\$80/barrel based on recent information.¹¹ Uncertainties as to the future trend prevent many airlines from buying forward at today’s prices and force them to pass price increases on to their customers.

Operating in a global environment, many companies in the travel industry are exposed to currency fluctuations and they have strong hedging strategies in place. However, the recent trends in Euro, US Dollar, and Sterling, proved to be extremely difficult to successfully hedge.

These trends, combined with a lower consumer spending power, terror, and health scares, mean that many operators are now focusing on survival strategies rather than growth.

⁹ Tourism Impact Data Forecast, WTTC, 2009

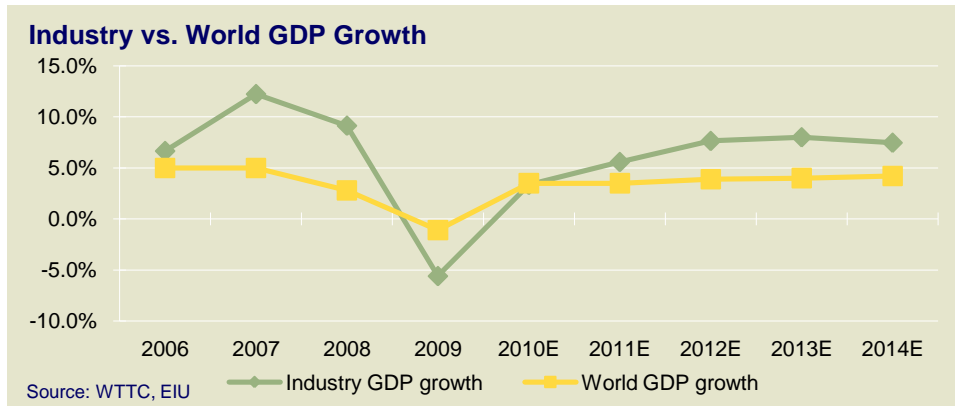
¹⁰ EIU (Economist Intelligence Unit)

¹¹ Bloomberg



On the other hand, historical trends show that the tourism industry is more volatile than the global GDP, making higher peaks in “good” years and deeper troughs in “bad” years. This correlation, combined with the positive outlook for the tourism industry in the medium and long term as highlighted above, suggests that we may be approaching a robust progression phase with expected growth rates averaging around 6%-7% per annum compared to an average growth rate of 3%-4% for world GDP.

Figure 4 - Tourism Industry vs. World GDP Growth



In a recent article published in the World Economic Forum’s 2009 issue of the Travel & Tourism Competitiveness Report, the importance of public-private partnership was highlighted as one of the key factors in stimulating demand in the current economic environment.¹² Conventionally, the role of the public sector has been essential for the development and promotion of tourism. At present, an effective partnership between the public and private sectors, where the main issues of the industry are properly addressed and the legal framework is set for the industry’s development, may create substantial momentum for the industry’s further growth. In emerging markets, in particular, this momentum may be even stronger owing to the growth potential of the economy as a whole.

2.2 Domestic Sector

2.2.1 General Overview

Turkey has become one of the world’s most popular tourism destinations thanks to its natural attractions, unique historical and archaeological sites, improving touristic infrastructure and its tradition of hospitality. In the city of Istanbul, two suspension bridges over the Bosphorus link Asia and Europe. The Asian part of the country, called Asia Minor by the Romans, was the crossroad for many ancient civilisations. The country is surrounded by 3 different seas with long summers which make it a popular summer destination.

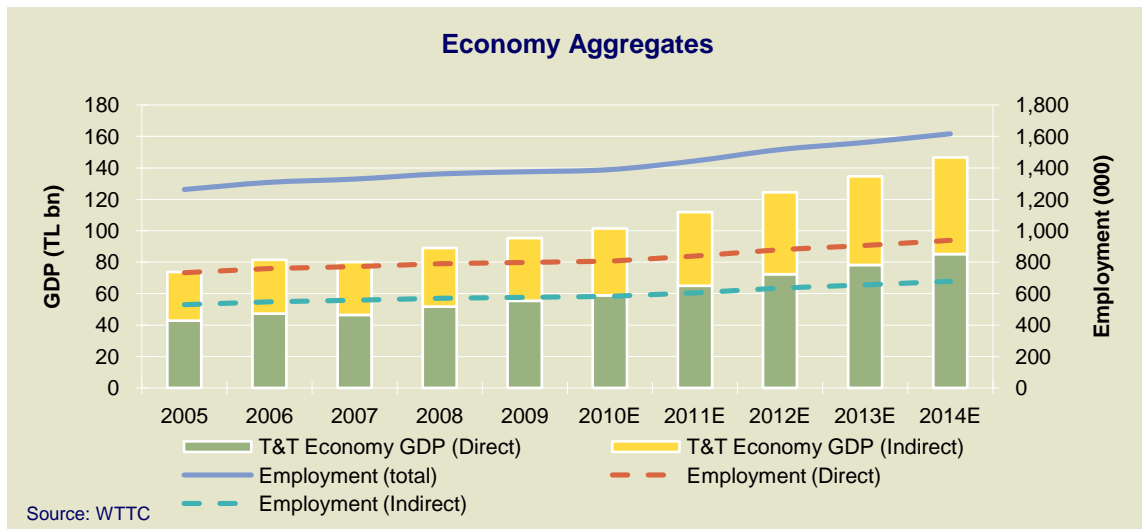
The tourism industry has been one of the most important drivers behind Turkey’s economic development over recent decades by reducing unemployment, raising national GDP and improving the country’s balance of payments. In 2009, combined with the travel sector, the industry generated TL 95.3 billion of economic activity (approximately 10.2% of Turkey’s GDP) with an employment of approximately 1.7 million people (7.2% of total employment).¹³

¹² Girgis, A. Ibrahim U., *The importance of Public-Private Partnership in the Current Downturn*, 2009

¹³ The Travel & Tourism Competitiveness Report, World Economic Forum, 2009

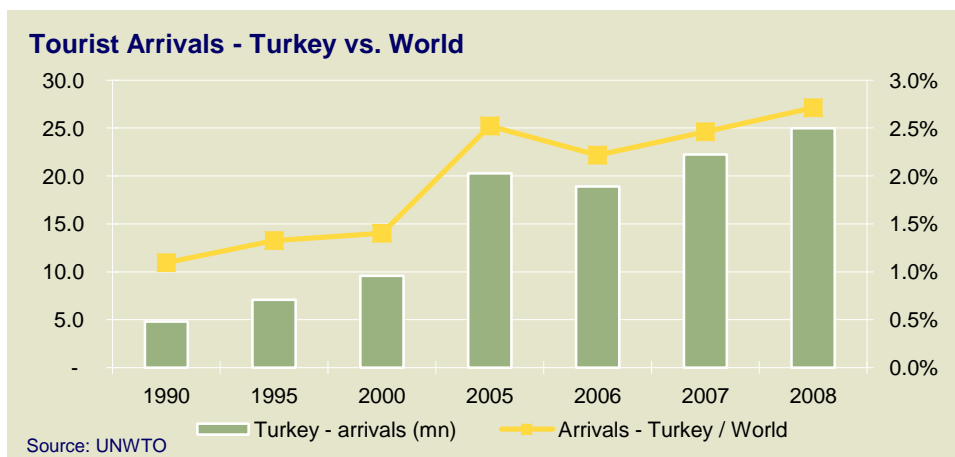


Figure 5 - Turkish Tourism Economy Aggregates



International tourist arrivals and tourism receipts have been growing rapidly over recent decades. The growth in Turkish tourism industry has been faster than that of the globe. The share of Turkish tourist arrivals in the world has increased from 1.1% in 1990 to 2.7% in 2008. The share of tourism receipts in the global tourism GDP, likewise, has increased from 1.2% in 1990 to 2.3% in 2008.¹⁴

Figure 6 - Tourist Arrivals: Turkey vs. World



The tourism encouragement law (no: 2634), enacted in 1982, provided strong momentum for the industry's growth, which made Turkey a very popular destination especially for Western Europe. Since 2000, this growth has been continuing until present, except for 2006, when the World Cup in Germany affected the normal travel patterns globally. In 2008, despite the worsened conditions observed globally, Turkey enjoyed its best year ever, welcoming more than 30 million tourists (26 million international and 4 million domestic).¹⁵ Tourist arrivals and tourism receipts grew by 13.6% and 18.5%, respectively, resulting in an average receipt of US\$708 per arrival. In the first three quarters of 2009, arrivals increased by 1.5% but receipts decreased by 7%, resulting in an average receipt of \$647 per arrival.¹⁶

¹⁴ Tourism Highlights, UNWTO, 2009

¹⁵ Ministry of Culture and Tourism, 2009

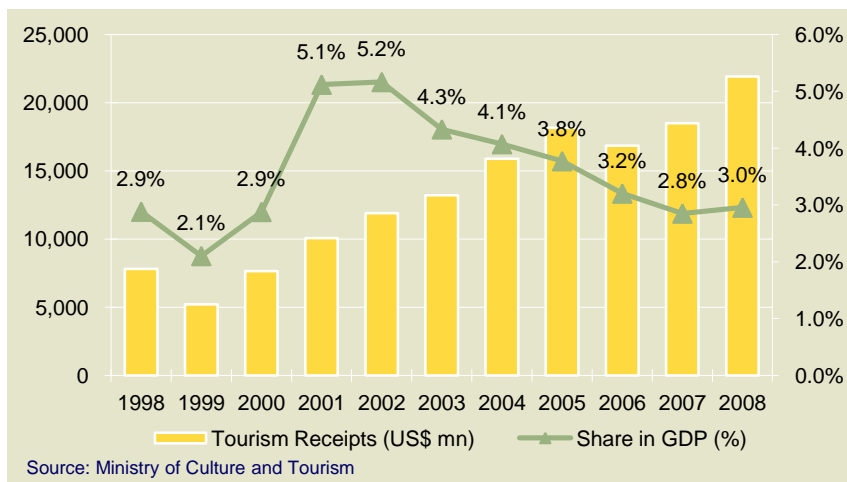
¹⁶ TUIK (Turkish Statistical Institute), 2009



Figure 7 - International Tourist Arrivals



Figure 8 - International Tourism Receipts



The historical trend for the last three years show that more than half of the arrivals each year occur between June and September. Conversely, the winter period is the low season for the industry.

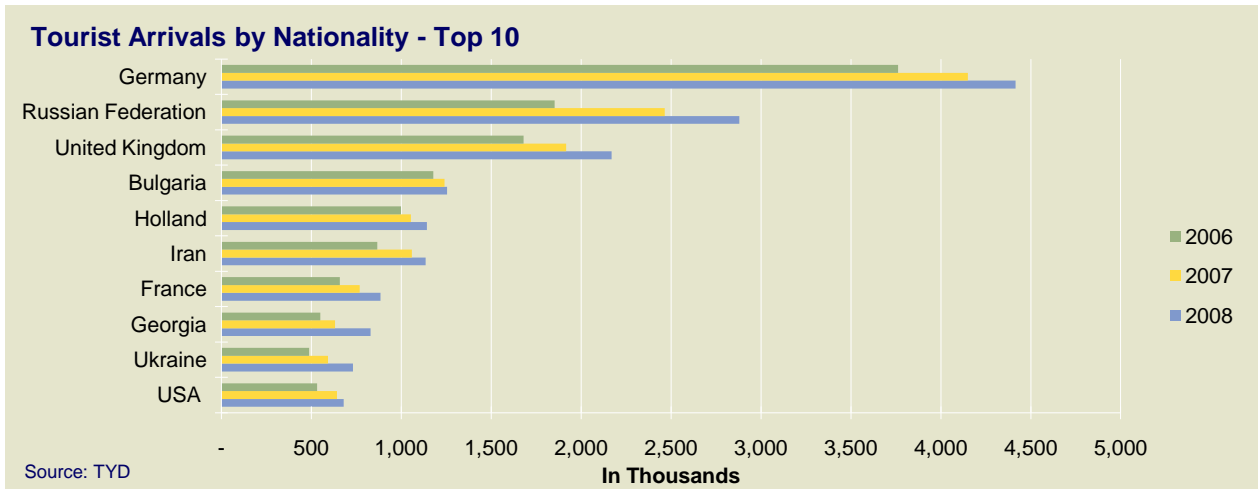
Figure 9 - Monthly International Tourist Arrivals



Germany, the United Kingdom and the Russian Federation took the top three places in terms of number of visitors, together forming approximately 36% of the total international arrivals. In terms of growth, the Russian Federation, Israel, Georgia, the Ukraine and Italy have shown the most rapid advances in visitor numbers to Turkey in the last three years with CAGR's of 24.6%, 24.0%, 23.0%, 22.4% and 22.0%, respectively.

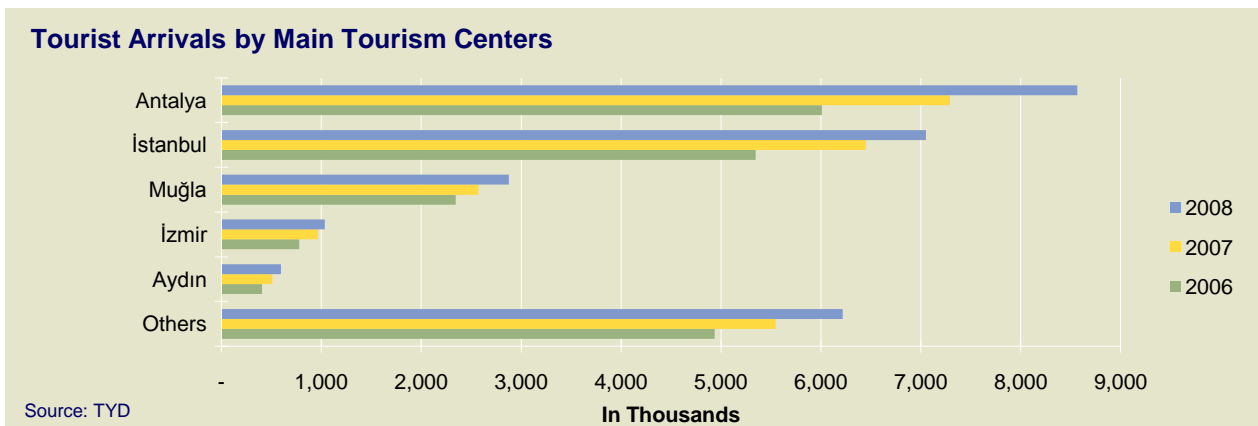


Figure 10 - Tourist Arrivals by Nationality



Antalya and Istanbul are the most popular destinations. These two cities account for approximately 60% of all arrivals.

Figure 11 - Tourist Arrivals by Main Tourism Centres

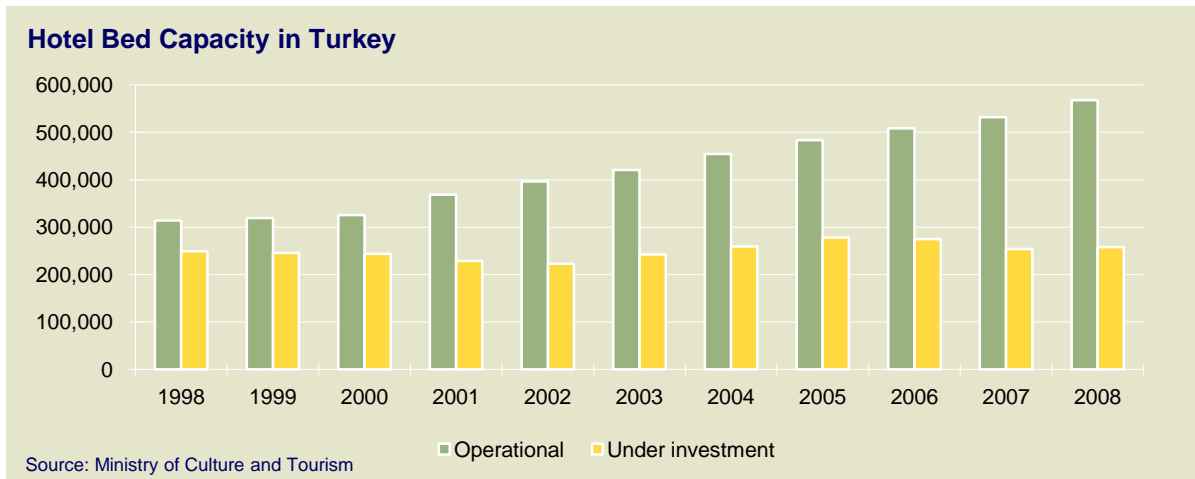




2.2.2 Hotel Market

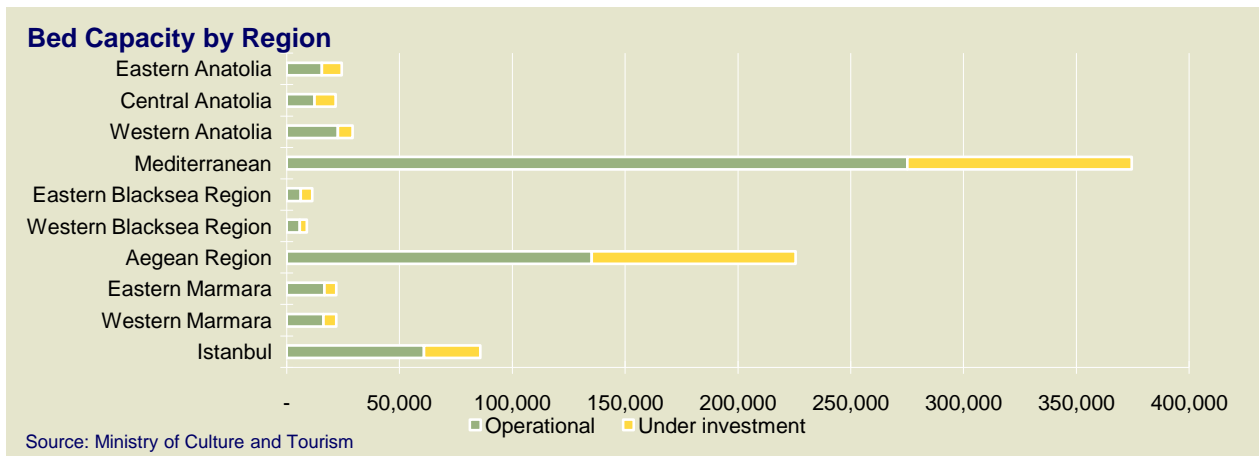
Turkey's 3 big cities, İstanbul, Ankara and İzmir, together with the popular holiday destinations, Antalya, Muğla and Aydın dominate the hotel market in Turkey. Currently, hotels in Turkey have a capacity of 567,470 beds. In addition, there are many hotels under construction with an additional capacity of 258,287 beds. The CAGR in bed capacity between 1998 and 2008 has been 6.1%.

Figure 12 - Hotel Bed Capacity in Turkey



The Mediterranean region has the largest bed capacity as observed in the chart below. However, the capacity in the Aegean region is developing rapidly and is expected to grow by 67% with new investments. İstanbul is also very significant.

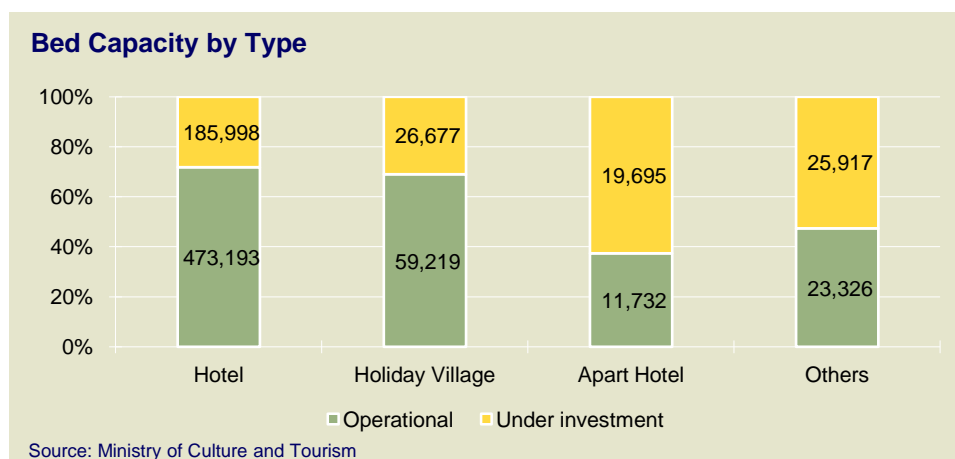
Figure 13 - Bed Capacity by Region



Hotels account for 83% of the operational bed capacity, followed by holiday villages with 10%, based on 2008 figures. Five, four and three star hotels account for 38%, 31% and 19% of the operational bed capacity, respectively. Apart hotels, on the other hand, are gaining popularity as the figures indicate that the capacity under construction is bigger than the currently operational capacity.



Figure 14 - Bed Capacity by Type



Many hotels and other touristic facilities in Turkey are on land owned by the Turkish Treasury, and are leased out for a 49 year period, which is likely to be renewable at expiry. Most of the international hotel chains have entered the Turkish market since the 1970's. Currently, nine of the world's top 10 hotel chains are operating in Turkey.¹⁷ The Best Western International has 15 hotels in Turkey, followed by the IHG Group with 8 hotels.

Figure 15 - International Hotel Chains in Turkey

Group	Brand	Location	# of Hotels
Best Western Int.	Best Western	Istanbul, Ankara, İzmir, Antalya	15
IHG Group	InterContinental Holiday Inn	Istanbul, Ankara, İzmir, Bursa	8
Hilton Hotels	Hilton Conrad	Istanbul, Ankara, İzmir, Adana, Kayseri, Mersin	8
Wyndham Worldwide	Ramada	Istanbul, Ankara, Muğla, Kahramanmaraş	6
Mariott International	Courtyard Ritz Carlton	Istanbul, Antalya, Erzurum	6
Starwood	Sheraton W Hotels	Istanbul, Ankara, İzmir, Antalya	6
Accor	Novotel Ibis	Istanbul, Eskişehir, Trabzon	4
Carlson Hospitality	Radisson	Istanbul, Ankara, İzmir	4
Hyatt	Hyatt Regency Park Hyatt	Istanbul	2

Source: Turkey Hotel Market Overview, Pamir & Soyuer, 2009

2.2.3 Aviation Market

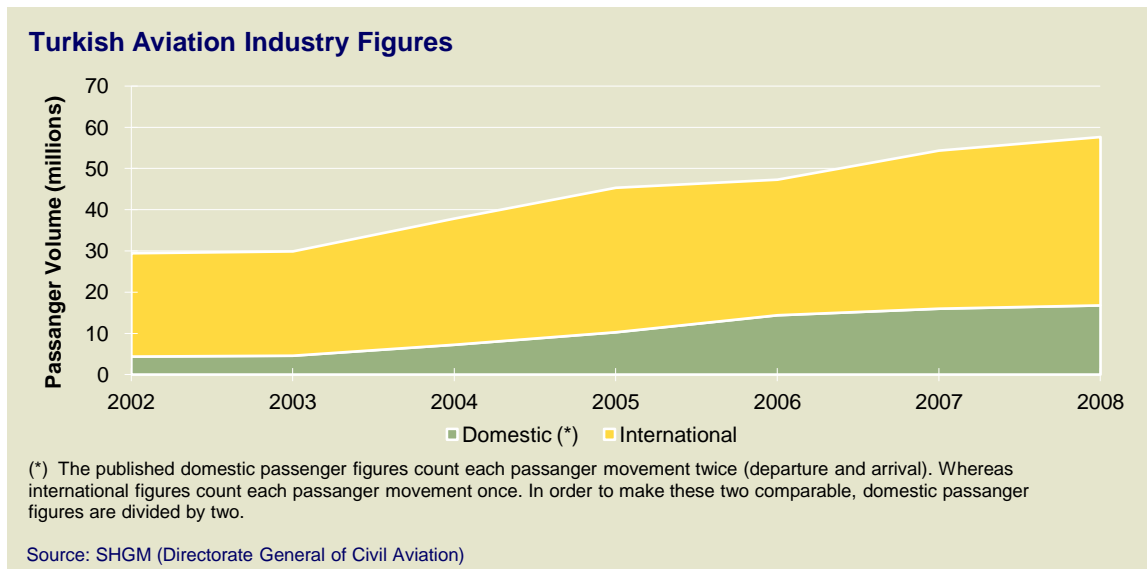
The aviation market in Turkey has demonstrated considerable growth in the last decade. Until 2002, the market was not yet open to competition, being a monopoly for the national operator Turkish Airlines. After 2002, various steps were taken aiming to liberalise the market, which resulted in a rapid increase in the number of domestic passengers, recording a CAGR of 25.2% between 2002 and 2008. In the same period, the number of international passengers grew with a CAGR of 8.5%. Compared to the monopolistic situation in 2002 where Turkish Airlines owned 150 aircraft, at present, there are 5 airline operators owning a total of 270 aircraft.¹⁸

¹⁷ Turkey Hotel Market Overview, Pamir & Soyuer, 2009

¹⁸ SHGM, Directorate General of Civil Aviation, 2009



Figure 16 - Turkish Aviation Industry Figures



2.2.4 Government Incentives

There are various investment incentives offered within the Law of for the Encouragement of Tourism (Law no: 2634). Below is a summary of these incentives:

- **Land Allocation for Tourism Investment:** Public land can be allocated to tourism facilities up to 49 years with relatively economic prices.
- **Employment of Foreign Staff:** Certified tourism establishments may employ qualified foreign personnel and experts with the approval of the Ministry of Tourism and the Ministry of Interior. Provisions of the Law concerning the Trades and Services to be performed in Turkey by Turkish Citizens are not applicable to such personnel. However the total number of foreign personnel employed may not be higher than 10% of the total number of employees. This ratio may be increased up to 20% by the Ministry of Tourism. Such foreign staff may start working at the establishment 3 months prior to the commencement of commercial operations.

The employment of personnel aged fewer than 21 at certified tourism establishments and covered by Law no 2559 concerning the Duties and Powers of the Police shall be subject to the prior permission of the highest civil authority of the local area.

- **Communication Facilities:** All procedures and allocations in connection with requests of certified tourism investments and establishments for telephone and telex facilities are carried out on a priority basis.
- **Favourable Treatment as Exporters:** Of the certified tourism establishments, those earning foreign exchange in the amounts that are specified annually by the Ministry for this purpose are considered as exporters.
- **Tourism Loan:** The Tourism Bank Inc. of the Republic of Turkey may obtain foreign currency loans from foreign sources for allocation to certified investments in tourism areas and tourism centres.

Note: A draft law has been prepared in order to decrease rates of utility prices for the tourism establishments.

2.3 Sector Outlook

Despite the start of the global economic downturn, the Turkish tourism industry managed to grow in 2008 and record its best ever year. The outlook also appears very strong and the industry is expected to support Turkey's future GDP growth by creating new jobs and improving the country's balance of payments.

2.3.1 Istanbul 2010

Istanbul is a European Capital of Culture 2010 along with Peç (Hungary) and Essen (Germany). The European Capital of Culture is a city designated by the European Union for a period of one calendar year during which it is given a chance to showcase its cultural life and cultural development. Istanbul 2010 is expected to bring many benefits and a significant income to the industry.

2.3.2 Tourism Strategy for Turkey – 2023

Coastal tourism is currently the most popular type of tourism in Turkey. In addition to coastal tourism, Turkey has several unique opportunities for different types of tourism such as health and thermal resources, winter sports, mountain climbing, conference and expo tourism, cruise ships and yachting, golfing, etc. However, a good deal of this potential is not yet utilised. In order to establish a framework for utilising these alternatives, the Ministry of Culture & Tourism has issued Turkey's 2023 Tourism Strategy with the intention of guiding the tourism industry in production management and implementation phases, by creating a roadmap for the sector. With this framework, those investors who are considering investing in the sector will be supported by the government in terms of planning, land allocation, and with respect to tourism projects. The characteristics and shapes of such incentives will be determined on an annual basis.

Health & Thermal Tourism

The following four regions of Turkey are suitable for health and thermal tourism:

- South Marmara: Balıkesir, Çanakkale, and Yalova;
- South Aegean region: Aydın, Denizli, Manisa, and İzmir;
- Phrygian region: Afyon, Ankara, Uşak, Eskişehir, and Kütahya;
- Central Anatolia: Aksaray, Kırşehir, Niğde, Nevşehir, and Yozgat.

Winter Tourism

Winter tourism facilities will better function with better access by means of roads or lifts. New accommodation facilities are planned for additional capacity. Ski runs will be brought in line with internationally accepted standards. Winter sports competitions and events will be supported.

Golf Tourism

Suitable areas suitable for golfing shall be identified and new golf courses will be developed by the Turkish Golf Federation and the Ministry of Culture and Tourism.

Sea Tourism

A single authority will be responsible for all entry procedures for foreign flagged yachts. All income generated from the operation of yacht tourism will be invested back into infrastructure development for the sector. Fairs will be funded and the development of yacht clubs will be encouraged. Legislation will be rearranged so that sail-powered yachts will pay less tax than engine powered yachts. Technical standards will be developed for the processing of bilge water and solid waste disposal. Steps will be implemented to organise the training of workers for the yacht tourism sector.

Congress and Expo Tourism

The Ministry of Culture and Tourism will organise meetings to shape the required framework for congress and expo tourism for seven priority cities: Istanbul, Ankara, Antalya, İzmir, Bursa, Konya and Mersin.



Ecotourism and Plateau Tourism

Locals will be trained and local museums and peripheral requirements will be supported.

2.4 SWOT Analysis

Strengths

- Availability of an excellent coastline, a wide range of natural attractions, unique historical and archaeological sites and a suitable climate.
- Know-how in the hospitality sector
- Well-trained workforce
- Strong government support behind the industry

Weaknesses

- Average prices are lower than the neighboring countries, and there is stiff price competition among the many competitors in the Turkish market.
- Increasing input costs
- Unrecorded transactions and tax avoidance among smaller, less organized businesses in the sector.

Opportunities

- Unutilised potential not only in coastal tourism but also in various other types of tourism including health & thermal resources, winter sports, golfing, yachting, etc.
- Availability of young and knowledgeable workforce
- Further liberalisation in aviation market
- Istanbul 2010 European Capital of Culture

Threats

- Strengthening TL against other main currencies
- High level of special consumption tax on alcohol
- 3% tax on daily accommodation charges



2.5 Mergers & Acquisitions

Below is a list of major M&A transactions by foreign investors in the Turkish tourism industry over the last decade.

#	Acquirer	Origin	Target	Date	Stake	Deal Value (US\$ million)
1	International Restaurants Group	U.S.	Istanbul Doors Group	September-08	38.5%	40.5
2	Naguib Mikati	Lebanon	Keyland Turizm Seyahat ve Ticaret	February-08	100.0%	11.7
3	Klueh Service Management TS	Germany	Emin Catering	November-07	51.0%	13.0
4	Velios Limited	Russia	AFM Uluslararası Film Produksiyon ve Ticaret A.S.	October-07	51.9%	28.5
5	Mirax Group	Russia	Sungate Port Royal	August-07	100.0%	340.0
6	Colony Capital LLC	U.S.	Mars Entertainment Group	April-07	55.0%	N/D
7	Ticketmaster Entertainment Inc.	U.S.	Biletix	November-06	100.0%	15.0 - 20.0
8	Tez Tour	Russia	Coralia Club Palmariva	August-05	100.0%	29.0

N/D: Not Disclosed



2.6 Sector Establishments and Institutions

Establishments and Institutions			
Name	Code	Description	Website
Ministry of Culture and Tourism	TCKTB	TCKTB is responsible for tourism legislation and policy in Turkey	http://www.kultur.gov.tr/
Turkish Tourism Investors Association	TYD	Established in 1988 by the principal tourism investors in Turkey, Turkish Tourism Investors Association (TYD) is a private non-governmental initiative whose main objectives are to bring together entrepreneurs investing in the tourism sector and provide assistance in their present problems and future plans, to announce the importance of tourism investments to the public, and to increase market share of Turkish tourism in World tourism.	http://www.ttyd.org.tr/
Turkish Hotels Federation	TÜROFED	The federation of 12 regional hotels associations	http://www.turofed.org.tr/
Association of Turkish Travel Agencies	TÜRSAB	The Association of Turkish Travel Agencies is a professional organization established in 1972. The main aims of the Association are, the development of the travel agency profession in harmony with the country's economy and tourism sector, and protection of professional ethics and solidarity.	http://www.tursab.org.tr/
Federation of Turkish Tourist Guide Associations	TUREB	TUREB is the national federation, which was formed with a Protocol of Cooperation and Coordination among Professional Organizations of Turkish Tourist Guides. It consists of tourist guide guilds and associations with more than 5-6 thousand members from all over Turkey. TUREB is a member of the World Federation of Tourist Guide Associations (WFTGA) and European Federation of Tourist Guide Associations - FEG.	http://www.tureb.net/
Tourism Development Foundation	TUGEV	TUGEV's objective is to provide material and immaterial support in advertising Turkey's Tourism values in and out of the country and, in the direction of Turkey's national objectives and benefits and within the limits of tourism plan which will be applied by the government in developing Turkish Tourism, Tourism Culture, Tourism Economy, Tourism Industry and Tourism Business.	http://www.turizmelistirmevakfi.org/
Touristic Hotels & Investors Association	TUROB	The foundation purpose of the association is to perform some scientific and practical studies on the subject, problems and their solutions relating to tourism, to make contribution to such comprehensive studies, to enable the tourism and the tourist establishments to be improved in compliance with the needs of tourism in this direction, and also to provide and maintain necessary directly or indirectly relationship and coordination of association with the relevant offices, organisations, corporations, companies and persons among members and to represent its members both inside and outside the sector properly.	http://www.turob.org/
goTurkey.com		Official Tourism portal of Turkey	http://www.goturkey.com/
Directorate General of Civil Aviation	SHGM	Upon "Law No. 5431 on the Organization and Tasks of Directorate General of Civil Aviation", which came into force following its publication on the official gazette dated November 18th 2005, the relevant foundations for restructuring the Directorate General of Civil Aviation was laid so that the Aviation security and Security are ensured on optimum level and civil aviation activities are carried out as per international rules and standards.	www.shgm.gov.tr



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**ABBREVIATIONS**

ASA	Air Service Agreement
CAGR	Compound Annual Growth Rate
EIU	Economist Intelligence Unit
EUR	Euro
GDP	Gross Domestic Product
ISPAT	Republic of Turkey Prime Ministry Investment Support and Promotion Agency
SHGM	Directorate General of Civil Aviation
THY	Turkish Airlines
TL	Turkish Lira
TUIK	Turkish Statistical Institute
TYD	Turkish Tourism Investors Association
US\$	US Dollars
WTTC	World Travel and Tourism Council

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