

IS Venture Capital

RESEARCH DEPARTMENT

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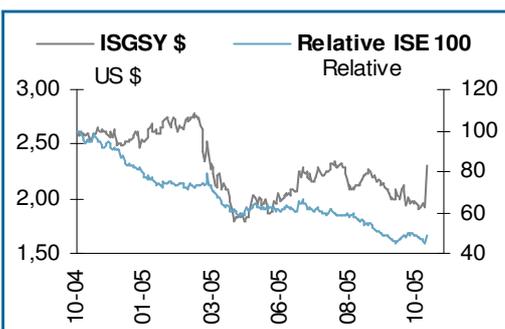
28 November 2005

Stock Data	TRY	US\$
Share Price	3,14	2,31
ISE-100	36.760	27.079
Number of shares	22,5 mn	
Float	40,1%	
Market Cap	71 mn	\$52 m
Float MCap	28 mn	\$21 m

Shareholder Structure	% Stake
Is Investment	20,08
TSKB	16,67
TTGV	11,11
Anadolu Insurance	6,67
Milli Reassurance	4,44
Is Factoring	0,89
Free Float	40,14
Total	100,00

Stock Performance	1 Mn	3 Mn	12 Mn
TL % Change	18,0	4,7	-16,0
US\$ % Change	18,4	4,4	-11,7
Rel.Index % Change	1,7	-12,0	-46,4
Average Volume mn\$	0,99	0,55	0,26

Stock Performance	1 Mn	12 Mn	YTD
Share Price Minimum (\$)	1,91	1,79	1,79
Share Price Maximum (\$)	2,48	2,78	2,78



An overpunished stock

Trading at a steep discount to its NAV

Is Venture Capital's share price is currently so low that it is trading at a discount to the value of its liquid assets and the Companies which it has invested in. The company's market cap stands at \$52 million, but has \$47 million worth of liquid assets and its total investments in five companies amounts to \$21 million. We think this is unjustified. Having underperformed the ISE index by 39% so far this year, the stock currently trades at a 29% discount to its net asset value of \$73 million (or TRY 4,36 per share).

No fresh news, apart from the cinema acquisition

Following the announcement of the FY04 consolidated financials, we have seen an improvement in the earnings performance of the invested companies when compared to 2003, even though their bottom lines were still in the red, as they are in the early growth stages. The combined loss from the two invested companies halved from \$4.5 million in 2003 to \$2.3 million in 2004, despite the addition of Step Halicilik which also contributed \$50,000 to the loss figure. Following the IPO, Is Venture Capital held discussions with more than 100 companies, while the only investment was the acquisition of another cinema, Tepe Cinemaxx.

New projects in the pipeline

Is Venture Capital's current investment portfolio is mainly focused on the technology and retail sectors. Is Venture Capital expects to increase the number of companies invested in to seven by 2006. Apart from further investments in existing sectors (retail), Is Venture Capital announced that it had entered partnership talks with Tuyap, a fairs and exhibitions organization company.

Possible exit from some businesses

The expected holding time for investments would generally be 3-5 years, while the likely exit options for the portfolio holdings are IPOs, strategic sales or sale back to the original shareholders.

Consolidated financials to improve this year, possibly prompting cash dividend

Is Venture's operating expenses were inflated in 2004 on the back of the one-off expenses, such as IPO expenses and stamp duty (0.75%) on option agreements (equal to 4% of FY04 operating expenses). This improving performance of all the companies invested this year and the fall in operating expenses will help Is Venture Capital's bottom-line. Another positive contribution will come from the elimination of the monetary loss on the Company's net cash position, as inflation accounting is no longer applied. Meanwhile the acquisition of Tepe Cinemaxx will have a positive impact on the financials, as only Cinemars and Nevotek are currently fully consolidated.

Valuation

We based our valuation for Is Venture Capital on the portfolio valuation method.

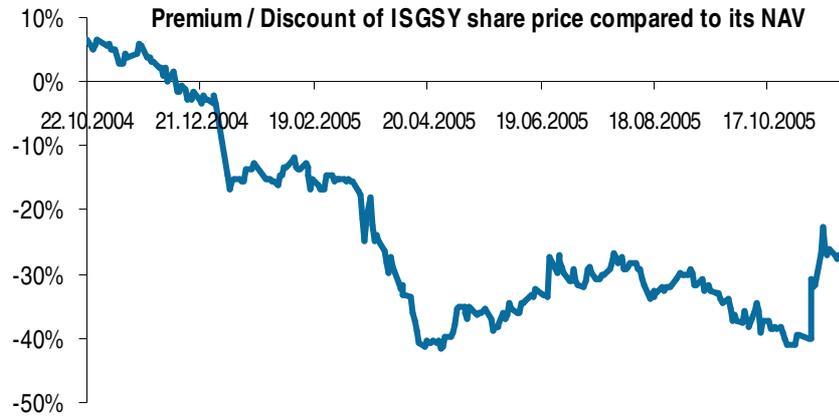
Net Asset Value

Is Venture Capital's net asset valuation, as of 30 September, yielded a value of \$73 million (equal to TRY4.36 per share) for the Company.

Is Venture Capital Investment Trust Portfolio Table, as of 30 September 2005

Assets included in Portfolio	Investment Date	US\$	Invested Amount (TRY)	Inflation Adjusted Value (TRY)	% Share in Group	% Share in Portfolio
A. Long term Investments		20,738,889	30,008,729	34,969,853	100.00	35.74
1. Probil		3,188,889	5,217,039	7,213,154	20.63	7.37
1st Investment	10/15/02	3,000,000	4,940,356	6,881,206	19.68	7.03
2nd Investment	10/23/03	188,889	276,683	331,948	0.95	0.34
2. ITD		1,850,000	2,969,243	3,923,655	11.22	4.01
1st Investment	12/27/02	1,712,500	2,788,031	3,724,189	10.65	3.81
2nd Investment	3/22/04	137,500	181,212	199,467	0.57	0.20
3. Cinemars		11,500,000	15,874,324	17,237,924	49.29	17.62
1st Investment	7/30/03	3,250,000	4,554,171	5,486,582	15.69	5.61
2nd Investment	12/29/03	1,090,000	1,540,495	1,805,963	5.16	1.85
3rd Investment	9/24/04	660,000	982,832	1,054,024	3.01	1.08
4th Investment	6/29/05	6,500,000	8,796,827	8,891,356	25.43	9.09
4. Nevotek		1,200,000	1,659,173	1,873,743	5.36	1.91
1st Investment	9/30/03	401,600	541,729	653,570	1.87	0.67
2nd Investment	3/1/04	399,200	525,164	578,069	1.65	0.59
3rd Investment	6/22/04	399,200	592,279	642,104	1.84	0.66
5. Step		3,000,000	4,288,951	4,721,377	13.50	4.82
1st Investment	7/20/04	3,000,000	4,288,951	4,721,377	13.50	4.82
B. Short term Investments			58,369,001	62,883,429	100.00	64.26
I. Government securities			27,760,411	31,155,230	49.54	31.84
1. Treasury Bills			3,742,712	4,238,467	6.74	4.33
2. Government Bonds			24,017,699	26,916,763	42.80	27.51
II. Other			30,608,590	31,728,199	50.46	32.42
1. REPO			0	0	0.00	0.00
2. Mutual funds			14,834,823	16,351,522	26.00	16.71
3. FX assets			15,773,767	15,376,677	24.45	15.71
4. Stocks			0	0	0.00	0.00
Portfolio Value (A+B)			88,377,731	97,853,283		
C. Liquid Assets			238,730	237,453		
D. Receivables (+)			0	0		
E. Other Assets			846,674	165,769		
1. Fixed Assets			426,690	109,428		
2. Intangible assets			407,374	43,731		
3. Other current assets			12,610	12,610		
F. Debt (-)			137,970	137,970		
G. Provisions for Options (-)			0	0		
NET ASSET VALUE (A+B+C+D-F-G)				98,118,534		
# of shares				22,500,000		
Net Asset Value per share (TRY)				4.3608		

Source: The Company



Some highlights about the Companies which Is Venture Capital has invested in

Is Venture Capital has so far invested in five businesses, three of which are in the IT sector and two in the retail sector. The Company analysed 450 businesses in October 2004, but this number has now reached almost 600. Retrospectively, there have been few developments in those companies which Is Venture Capital invested in since the IPO of the Company (October 2004).

Probil (10% stake, \$3.2 million)

Is Venture Capital looked to position itself in the ICT (“Information and Communication Technologies”) sector by investing in Turkey's largest independent IT Consulting/Systems Integrator. The company is the market leader of products and services in networking, e-learning, CRM, insurance and technology outsourcing. Probil focuses on end-to-end IT solutions and has three subsidiaries: Avez (e-Learning), Akademi (insurance), Bizitek (CRM). Established in 1989, the Company ranks fourth in terms of software revenue in Turkey, with net sales of \$57 million expected in 2005 (37% YoY growth).

Against Probil's improving performance, reflected in the narrowing loss figure, the IT sector in Turkey has still failed to grow as expected. The Company has announced net losses in the previous two years, although it managed to reduce its \$3.15 net loss in 2003 to \$1.82 million in 2004, pointing to a recovery. Sales in this sector have started to increase, but remain a long way short of reaching their pre-crisis levels.

In October 2004, Probil and Servus entered negotiations for a possible merger, but these were called off in December 2004 without reaching a concrete result.

It has been roughly 3 years since Is Venture Capital invested in Probil - very close to the average duration that venture capital investments are held. Considering the lower than expected growth in the IT sector, Probil is a likely candidate for divestiture from Is Venture Capital's portfolio; most probably in 2007. The Company may be sold to strategic investors.

ITD (\$33.48% stake, \$1.9 million)

Is Venture Capital has a 33.48% stake in ITD (“İletişim Teknoloji Danışmanlık Ticaret A.Ş.”), one of the most dominant and focused IT firm in Turkey specializing in integrated products and solutions for voice systems, payment systems (such as end-to-end payment solutions ranging from POS terminals) and e-business. ITD has been serving top banking and insurance institutions since its establishment in 1991 and the finance sector (mainly payment systems -POS) accounted for nearly 80% of the Company's sales in 2004.

The Company enlarges its operations in the area of voice and payment systems and broadens its services and market-driven approach internationally. With this focus; apart from its direct office in Poland (operational since 1995), ITD strengthens its international operations in the Middle East with its channel partners.

The \$1.4 million loss from ITD in the 2003 financials was whittled down to a \$446,000 loss in 2004, pointing at a strengthening in the Company's performance.

Offering the Company's shares to the public (IPO) may be considered as an exit strategy.

Cinemars (66.28% stake, \$11.5 million)

Established in 2000, Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.S. (CineMars) has become a leading brand name in the industry. The Company enjoys the top position in terms of ticket prices, occupancy rate, average sponsorship revenues, and is regarded as the best managed chain in the industry.

With the inclusion of **Tepe Cinemaxx** in July 2005, CineMars' number of screens nearly doubled from 36 to 61, with the number of seats rising from 4,178 to 9,433. According to sector norms, an increased number of locations is advantageous as it cuts headquarter costs and increases margins. Currently, CineMars has multiplex cinemas in 10 locations. Four of the theatres are located in Istanbul: Ritz Carlton (3 screens), G-Mall (7 screens) are at the downtown Istanbul in the most upscale neighbourhood, whereas Tepe Nautilus (8 screen) is located on the Asian side, and Fly-Inn (6 screens) is located at a residential area closer to the Istanbul Airport. Since its opening in 2003, the G-Mall complex has been the most popular cinema location. The other ones are located in Ankara (2 locations, 13 screens), Izmir (5 screens), Antalya (8 screens), Adana (7 screens), and Konya (4 screens) which have all become the leading cinemas in their respective cities. The Company also won the tender to open 9 screens at a new real estate development project (Kanyon) located in Istanbul, which is expected to become a very prestigious residential and business centre. The project will be up and running in mid-2006.

In the first nine months of 2005, the Company has a 6.65% share of the tickets sold in Turkey. An outstanding competitive advantage of the company is its unrivalled ability to treat each cinema location separately and the consequent location-unique customized concepts it can develop. Working with landlords, property companies and shopping centres, CineMars is able to bring more value to the property projects it dwells in by increasing the frequency of satisfied visitor traffic.

The movie industry in Turkey has been growing since the early 1990s with the number of viewers as well as the number of cinemas constantly increasing. The number of screens grew from 310 in 1996 to 921 in 2003, corresponding to a CAGR of 17%. The sector grew significantly in 2004 on the back of an increasing share of domestic films, which attracted more people to cinemas. In 2004 the audience figures rose by 32% YoY.

In our view, the most likely exit strategy would be a sale to strategic investors.

Nevotek (75% stake, \$1.2 million)

Is Venture Capital has a 75% stake in Nevotek, a leading IP telephony application software developer. Nevotek has an office in Amsterdam as well as its headquarters in Istanbul. The Company is fully consolidated in Is Venture Capital's financials.

Nevotek's applications are classified in two product groups: 1) generic products, such as unified messaging and billing, for horizontal markets, and sector specific products targeting vertical markets including hospitality and healthcare. While its applications are designed to be IP BPX vendor independent, Nevotek is a Cisco Systems, Inc. partner and it has been marketing its Cisco certified applications exclusively for Cisco's CallManager platform since its founding in 2001. Over the past two years Nevotek's applications have been deployed at over 70 customers in 20 countries. Their installations include hotels, offices, cruise ships, universities city facilities and other government establishments. This success has earned Nevotek many awards from Cisco and Nevotek was recently selected as one of the twelve "Cisco Solution Selling" partners out of 300 firms. Nevotek has received the "Strategic Alliance of the Year" award from Cisco Systems in 2002 and 2003, in addition to the "partner of the month" award on January 2004. Besides, the Company was awarded the "Russia and CIS Best Product" award in 2002.

By the end of 2004, the worldwide installed base of IP telephony lines totaled 18.9 million, or 4% of the worldwide corporate telephony lines installed base. Over the next four years, the number of worldwide corporate IP telephony lines are expected to increase to 279 million comprising 44% of the worldwide corporate telephony line installed base. Nevotek has targeted two major sector specific vertical markets and several horizontal markets for its products. The total size of two major verticals, hospitality and healthcare, is expected to reach \$225 million in 2008. The total available market (TAM) for the three horizontal market products of Nevotek, unified messaging, billing and office productivity suite, are all over \$1 billion. Nevotek will be one of the main beneficiaries of this growth, thanks to its established network (over 100 partners in 4 continents) and established client base (25 clients, 19 hotel chains). The Company is expected to announce net sales of \$3 million in 2006.

The most likely exit strategy seems to sell to a strategic investor, most probably after 2008.

Step (30% stake, \$3 million)

Another investment of Is Venture Capital, Step Carpet ("Step"), has approached the carpet retail business as a modern retailing concept involving fashion, design and other home accessories. Step was founded by Cem Sengor in 1998, whose family has been active in the carpet business for three generations. From its inception, Step has approached the carpet retail business as a modern retailing concept involving fashion, design and other home accessories.

Is Venture Capital has a 30% stake in the Company and wrote a \$50,800 loss in 2004 from Step Halı. Step has posted a strong year-to-date performance on the back of the strong retail sector performance, promising a better result for 2005. Step targets \$12.5 million sales in 2005, up from \$7 million in 2003. The company currently (as of November 2005) operates through 24 stores, 20 corners and 14 franchises (2 franchisees in Beirut, one corner in Vienna, Lutz store). Step operates its own stores at strategic locations, with favourable rental contracts, and the Company has a 33% market share in the domestic market. Step has an international expansion plan, mainly targeting Europe and the Middle East. The London store will be opened within this month and Lutz store in Nurnberg is expected to open by February 2006. In the Middle East, a franchisee store is planned to open in Dubai by the end of this year. Apart from this, two further outlets will be opened in Dubai in 2006, a franchisee outlet in Doha (Qatar), in 2007 and another in Manama (Bahrain), in 2007.

We think that, Is Venture Capital may inject further capital to Step, as it is expanding the store network both in Turkey and abroad. In our view, the most likely exit strategy would be a sale to strategic investors, but an IPO might also be considered.

Apart from these developments, in November 2004, Is Venture Capital entered partnership talks with **Tekin Acar**, a small chain selling cosmetic products, but these talks were called off in March without reaching any conclusion.

In October, Is Venture Capital entered partnership talks with **Tuyap**, a fairs and exhibitions organization company.

Finally, the Company plans to invest its liquid assets in tourism, branded food, services (catering, facility management, security), specialty retail, construction materials, energy, healthcare and pharmaceuticals sectors.

Risks: Low liquidity and transparency

Investors may demand a liquidity risk premium, due to the low liquidity of the stock (average daily turnover over the last three months was \$550,000). The companies being which Is Venture Capital invests in operate in competitive sectors, where information is not shared with the general public until final agreements are reached.

Consolidated Financials

(US\$ million)	2003/12	2004/09	2004/12	2005/03	2005/06
Current Assets	44,2	41,0	51,3	53,9	62,1
Liquid Assets	3,9	1,6	1,0	1,3	14,8
Marketable Securities	39,6	37,9	48,8	51,1	45,7
Short-Term Trade Receivables	0,1	0,4	0,3	0,4	0,6
Other Short-Term Receivables	0,0	0,4	0,3	0,2	0,7
Inventories	0,0	0,1	0,1	0,2	0,2
Other Current Assets	0,5	0,6	0,8	0,8	0,1
LONG TERM ASSETS	7,9	8,2	9,4	8,9	8,5
Long-Term Trade Receivables	0,2	0,0	0,0	0,0	0,0
Other Long Term Receivables	-	-	-	-	-
Long-Term Financial Assets	1,5	2,3	2,6	2,4	2,4
Tangible Fixed Assets	4,6	4,4	5,0	5,9	5,5
Intangible Fixed Assets	1,6	1,4	1,8	0,5	0,6
Other Long-Term Assets	0,0	0,0	0,0	0,0	0,0
TOTAL ASSETS	52,0	49,2	60,7	62,8	70,6
SHORT TERM LIABILITIES	2,0	3,1	2,5	2,4	4,0
Short-Term Financial Loans	0,6	0,4	0,3	0,6	2,5
Short-Term Trade Payables	0,6	1,5	1,3	0,7	0,4
Other Short-Term Liabilities	0,8	1,3	0,9	0,1	0,2
Short-Term Advances Received	0,0	0,0	0,0	0,0	0,0
Short-Term Provisions	0,0	0,0	0,0	1,0	0,8
LONG TERM LIABILITIES	1,8	0,5	0,4	0,2	5,0
Long-Term Financial Loans	1,7	0,2	0,2	0,1	4,8
Long-Term Trade Payables	-	-	-	0,0	0,0
Other Long-Term Liabilities	0,0	0,2	0,0	-	-
Long-Term Advances Received	-	-	-	-	-
Provisions	0,1	0,1	0,2	0,1	0,1
SHAREHOLDERS EQUITY	47,7	45,4	57,6	59,9	60,6
Share Capital	12,5	13,3	16,7	16,7	16,9
Premium in Excess of Par	-	-	-	5,2	5,2
Reserves and Other Sholders Equity Items	63,5	43,1	55,2	46,1	46,3
Current Year Income /(Losses)	2,7	(3,2)	(5,9)	1,2	1,4
Retained Earnings /(Acc. Losses)	(31,0)	(7,9)	(8,3)	(9,3)	(9,1)
TOTAL LIABILITIES AND S.HOLDERS EQUITY	52,0	49,2	60,7	62,8	70,6
	2003/12	2004/09	2004/12	2005/03	2005/06
Net Sales	4,03	7,23	11,97	3,77	6,36
Cost Of Sales	(4,71)	(6,47)	(10,61)	(2,86)	(5,24)
Service Revenues	-	-	-	-	-
Proceeds from Operations/int.+div+lease	-	-	-	-	-
GROSS PROFITS/LOSSES	(0,67)	0,75	1,36	0,91	1,12
Operating Expenses	(1,89)	(3,64)	(5,89)	(1,14)	(2,34)
NET OPERATING PROFITS	(2,56)	(2,89)	(4,52)	(0,23)	(1,22)
Income from Other Operations	10,54	3,34	4,67	1,60	2,65
Financial Expenses	(0,49)	(0,45)	(0,67)	(0,11)	(0,23)
Monetary Gain (loss)	(5,48)	(3,61)	(5,99)	-	-
MINORITY INTERESTS	0,71	0,49	0,57	(0,06)	0,16
Taxation on Income	-	-	-	0,00	0,00
NET PROFIT AFTER TAXES	2,66	(3,15)	(5,94)	1,20	1,37

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Abbreviations and formulas used in the report: ISE: Istanbul Stock Exchange; CMB: Capital Market Board; CB: Central Bank; MCap = Market Capitalization; P/E: Price/Earnings Ratio = Price/Earnings per share; P/BV: Price / Book Value = Price/Shareholders' Equity per share

İş Investment is willing to buy and sell İş Venture Capital securities for its own account.

İş Investment was the manager of the public offering of the securities of İş Venture Capital within the last 12 months.

İş Investment has received compensation for investment banking services from İş Venture Capital within the past 12 months.

İş Investment is willing to sell to, or buy from, clients the common equity of İş Venture Capital.
