Information Technology

Initiating Coverage

MARKET OUTPERFORMER

Indeks Bilgisayar

THE POWER IS ON

We initiate coverage of Indeks Bilgisayar ("Indeks"), Turkey's leading IT broadline distributor accounting for a 23.5% market share, with a MARKET OUTPERFORMER recommendation. Our US$162 mn fair value estimate suggests an attractive 47% upside potential. We expect Indeks Bilgisayar to solidify its market leadership with 22% CAGR revenue expansion by 2008, surpassing an ambitious 18% CAGR average revenue growth projected for the sector.

Growth Story -- Turkey's young population with 47% below age 25, coupled with computer and internet penetration rates of 13% and 9% compared to respective EU averages of 58% and 48%, stand out as key fundamental growth drivers for the IT sector. Additionally, a favourable macroeconomic environment; pent up demand in private and public sectors from the 2001 crisis when the sector contracted by above 50%; recent privatisation of state-owned companies; and the e-transformation process to be launched by the government envisaging the overhaul of IT systems, are seen as factors to contribute to the sector's growth prospects.

Solid Structure -- With a diversified product spectrum and a network of over 7,000 dealers, the Company enjoys a broad customer reach. Indeks also plans to enter manufacturing and service businesses to expand its revenue base. Additionally, the Company plans to move its logistics facilities to the recently acquired 40,000-sqm property, which is expected to enhance operational efficiency.

Attractive Valuation -- According to our valuation model comprising a DCF analysis and an international peer group multiple comparison based on conservative assumptions, **Indeks has a fair value of US$162 mn, promising an attractive 47% upside potential.** On the other hand, the stock is currently trading at 2006E/2007E EV/EBITDA and P/E of 6.7x/6.0x and 9.1x/7.3x, respectively, compared to its international peers' respective averages of 7.9x/6.8x and 14.0x/11.9x.

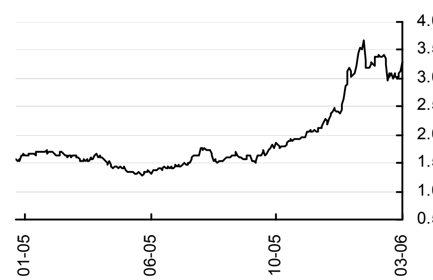
Actual vs Estimated Financials (US$mn) and multiples - IFRS Basis

FYE: December	Net Sales	Growth	EBITDA	Growth	Net Earnings	Growth	P/E	EV / EBITDA*
2008E	1,018	20%	32.4	16%	18.4	23%	6.0	5.3
2007E	849	20%	27.9	16%	15.0	23%	7.3	6.0
2006E	707	25%	23.9	24%	12.2	40%	9.1	6.7
2005A	566	31%	19.3	59%	8.7	52%	12.7	7.8

**Adjusted for Minority shares*

Market Value	
Close (TRY / $)*	3.30 / 2.45
Current MCap.*	$110 mn
Target Value	
Target Mcap.	$162 mn
Target Price (TRY / $)	4.80 / 3.61
Upside (Downside)	47%
Capitalisation	
Enterprise Val.	$115.3 mn
Net Debt	$5 mn
Number of Shares	45 mn
Free Float	20%
Performance	
Avg. Daily Vol.	$0.9 mn
Life H/L ($)	2.86 / 0.87
52w H/L	2.86 / 0.87

Daily Price Chart (in TRY)



(%)	Absolute	Relative
1m	-5%	10%
3m	44%	36%
12m	113%	22%

* as of March 28, 2006

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VALUATION

We employed a blended valuation approach for Indeks Bilgisayar, attaching 50% respective weights to the values derived from the DCF analysis and the international peer-group multiple comparison. The two valuation methods yielded a valuation range of US$160-164 mn. Based on a target value estimate of US$162 mn representing an upside potential of 47%, **we attach a MARKET OUTPERFORMER recommendation to Indeks Bilgisayar.**

Exhibit 1: Valuation Summary (US$ mn)

Method	Value	Weight (%)	Weighted Value
DCF	164	50	82
International Comparison	160	50	80
Overall			**162**
Current Mcap			**110**
Upside Potential			**47%**

DCF Analysis

We employed a two-step analysis to derive Indeks's equity value. Our DCF valuation model, based on Free Cash Flows (FCFs) to the firm, excluding Datagate, Neteks and Neotech's 41%, 14.2%, and 20% minority interests, suggests a US$164 mn fair value for the stock. Our DCF model is based on the following conservative assumptions:

1) We expect the Company's revenues to increase at a 22% CAGR between 2005-2008, above the expected sector growth of 18% CAGR. In the long term, within 2008-2015, we assume 9% CAGR, above the GDP growth expectation of 5%.
2) We employed an average WACC of 13.0% to discount the FCFs.
3) Our terminal growth rate assumption is 2%.
4) The sales and cost of sales are recorded in US$, whereas 85% of the fixed costs are in TRY. Our macro assumptions point to a depreciating TRY after 2007, which should increase the EBITDA margin; however, intensifying competition in the sector is expected to ultimately lead to a slight decline in gross margins in the forecast period from 6% to 5.4%. Consequently, we expect the EBITDA margin to decline slightly from 3.4% to 2.7% in the forecast period.
5) The Company has net debt of US$5 mn as of YE05.
6) Due to the acquisition of land for US$15 mn and an additional CAPEX of nearly US$1 mn, we included US$16 mn CAPEX in our FCF calculations for 2006. For the years ahead, we assumed an annual CAPEX of US$1 mn in view of the Company's growing storage and logistics facilities.
7) Based on identical DCF assumptions, we estimated Datagate's value at US$38 mn. Through a multiple analysis, we reached a combined value of US$30 mn for Neteks and Neotech.

Exhibit 2: Free Cash Flow Projection Model (US$ mn)

($US mn)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	**566**	**707**	**849**	**1,018**	**1,171**	**1,347**	**1,482**	**1,600**	**1,680**	**1,764**	**1,852**
growth %	*31%*	*25%*	*20%*	*20%*	*15%*	*15%*	*10%*	*8%*	*5%*	*5%*	*5%*
Gross Profit	**34**	**42**	**50**	**59**	**67**	**75**	**81**	**86**	**91**	**95**	**100**
gross margin	*6.1%*	*6.0%*	*5.9%*	*5.8%*	*5.7%*	*5.6%*	*5.5%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*
Operating Profit	**19**	**23**	**27**	**32**	**35**	**39**	**40**	**42**	**44**	**46**	**48**
operating margin	*3.3%*	*3.3%*	*3.2%*	*3.1%*	*3.0%*	*2.9%*	*2.7%*	*2.6%*	*2.6%*	*2.6%*	*2.6%*
EBITDA	**19**	**24**	**28**	**32**	**36**	**40**	**41**	**43**	**45**	**47**	**50**
EBITDA Mgn	***3.4%***	***3.4%***	***3.3%***	***3.2%***	***3.1%***	***3.0%***	***2.8%***	***2.7%***	***2.7%***	***2.7%***	***2.7%***
- Taxes	**-2.1**	**-2.0**	**-2.4**	**-3.0**	**-3.4**	**-3.9**	**-5.6**	**-5.9**	**-6.2**	**-6.6**	**-7.0**
-/+ Increase/Decrease in Op. W/C	**-8**	**-11**	**-12**	**-15**	**-13**	**-15**	**-11**	**-10**	**-7**	**-7**	**-7**
- Capital Expenditures		**-16**	**-1**	**-1**	**-1**	**-1**	**-1**	**-2**	**-2**	**-2**	**-2**
FCF	**9.6**	**-4.6**	**12.2**	**13.8**	**19.0**	**20.1**	**22.9**	**25.7**	**30.6**	**32.2**	**33.8**
		13.0%	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**

Discount Rate	
WACC	13.0%
PV of FCFC	97
Terminal Growth Rate :	2.0%
Terminal Discount Rate :	13.0%
Terminal Value @ 2%	313
PV of TEV	92
Net Debt	5.0
Value of Equity	184.8
Datagate (41%)	-16
Neteks(%14.2)+Neotech(20%)	-4.7
Indeks Equity	**164**

Exhibit 3: Sensitivity Analysis of Indeks

US$mn	**Terminal Growth Rate**				
WACC	1.0%	1.5%	2.0%	2.5%	3.0%
12.0%	175	180	185	191	198
12.5%	165	170	174	179	185
13.0%	156	160	**164**	168	173
13.5%	148	151	155	159	163
14.0%	140	143	146	150	153

International Multiple Comparison

We based our analysis on 2006E and 2007E EV/Sales, EV/EBITDA, P/E multiples. Accordingly, we derived a target value of US$160 mn, the details of which we present in Exhibit 4. Indeks is currently trading at 2006E/2007E EV/Sales, EV/EBITDA and P/E of 0.16x/0.14x, 6.7x/6.0x and 9.1x/7.3x, respectively, compared to its international peers' respective averages of 0.17x/0.16x, 7.9x/6.8x and 14.0x/11.9x. Its Turkish comparable Arena, which also promises strong growth, trades at a slightly higher EV/EBITDA and a lower P/E multiple.

Exhibit 4: International Multiple Comparison

		EV/SALES		EV/EBITDA		P/E		
Company	**Country**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	
Bell Micro Products	US	0.13	0.12	7.92	6.62	12.7	9.6	
Ingram Corp	US	0.11	0.11	7.11	6.08	11.7	10.6	
TECH Data	US	0.10	0.10	8.23	6.97	17.6	13.8	
Esprinet	Italy	0.36	0.34	9.95	9.21	20.4	18.4	
Also Holding	Switzerland	0.14	0.13	8.22	7.13	13.8	12.6	
Arena	Turkey	0.18	0.14	6.00	4.87	8.1	6.8	
Average		**0.17**	**0.16**	**7.9**	**6.8**	**14.0**	**11.9**	
INDES		***0.16***	***0.14***	***6.7***	***6.0***	***9.1***	***7.3***	
Implied Value for INDES		115.6	128.0	184.2	185.0	170.8	179.3	**160**

Source: EFGI and Bloomberg

THE COMPANY

Established in 1989, Indeks Bilgisayar Sistemleri Mühendislik Sanayii ve Ticaret A.S. is Turkey's largest IT distributor with a 23.5% market share. The Company engages in IT distribution, buying and selling computers, technical support and trade in software and data transfer equipment. Greece-based Pouliadis Group owns a 35.56% stake in the Company.

Exhibit 5: Shareholding Structure

Shareholder	# of shares	
Nevres Erol Bilecik	17,981,719	39.96%
Pouliadis and Associat	16,000,006	35.56%
Public	8,949,130	19.89%
Other	2,069,145	4.59%
Total	**45,000,000**	**100%**

Source: Company Data

Despite the economic crisis in 2001, when sector turnover contracted by a sharp 50%, Indeks acquired 50.5% of Datagate, one of the leading firms in computer peripherals and OEM wholesaling, as well as 85.8% of Neteks, a major network distributor. In 2003, Indeks raised its stake in Datagate to 85%. The Company held an IPO in June 2004. Indeks's financials are consolidated with those of Datagate, Neteks and Neotech. Datagate's IPO, which reduced Indeks's stake to 59%, took place in Feb'06.

Exhibit 6: Subsidiaries

Name of Subsidiary	Indeks' Share
Datagate Bilgisayar Malzemeleri A.S.	59%
Neteks Iletisim Ürünleri Dagitim A.S.	85.8%
Neotech Teknolojik Ürünler Dagitim A:S.	80%
Infin Bilgisayar Ticaret A.S.	100%
Inko Iletisim ve Dijital Hizm.San.Tic.A.S.	70%

Source: Company Data

Group Companies

Indeks -- Indeks is a broadline distributor of desktop PC and notebooks, server products, peripherals and software products. With its 2005 sales figure of US$411 mn, it is the largest company in the Indeks group.

Datagate -- Datagate, the IPO of which was held in Feb'06, deals with sales, distributorship, marketing, logistics, and after sales services of a number of IT firms supplying components such as microprocessors, hard discs, memory units, optical units, motherboards, tapes, video accelerator cards, monitors, and various types of hardware supporting software.

Neteks -- Neteks was established to provide network and communication products to the market through its retailers and business partners as a distributor company in 1996.

Neotech -- The Company operates in wholesale marketing of consumer electronics and communication devices. Indeks aims to raise the current share of 2.1% of consumer electronics in total revenues to 5%.

Inko -- The Company obtained B type licence to offer Long Distance Telephone in 2004 for 15 years. Inko is exploring opportunities in the telecommunication field with its wide network of almost 7,000 companies that are doing business with the Indeks Group of companies.

Infin -- Infin Bilgisayar Ticaret A.S. was established in 2001 to support retailers in their sales and export operations.

Exhibit 7: Product Groups by Company

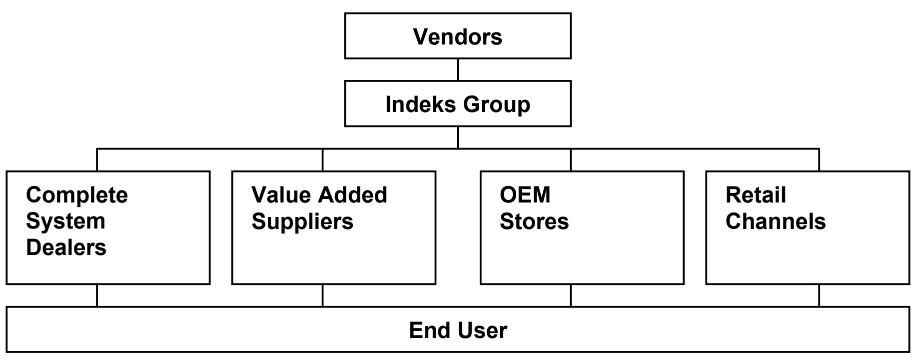
Product Groups by Company			
INDEKS	**DATAGATE**	**NETEKS**	**NEOTECH**
PC	Hard Disk	Corporate Network	Consumer Electronics
Laptops	Microprocessor	Network Systems	Comm.Devices
Printers	Motherboard	Cabling	
Servers	Video Card	Remote Servers	
PC Peripherals	Monitors	Network Hardware	
Software	Optical Products		
	Laptop PCs		
	Memory Products		
	Server Products		
	Keyboard and Mouse		
	Network products		
	Laser Printer		
	Backup Units&Software		

Source: Company Data

Operations

Indeks Group of Companies is an intermediary between vendors and end-users. Indeks buys the products from vendors and distributes them to system dealers, value added suppliers, OEM stores and retail channels, which sell those products to the end-user.

Exhibit 8: Product Groups by Company



Source: Company Data

Indeks imports products from abroad, in addition to buying from local importers through distributorship contracts. The Company then sells these products to one of several secondary intermediaries, through which the products reach the end user. Indeks works with complete system dealers, value added suppliers, OEM stores and retail channels.

Complete System Dealers -- These are large-scale companies that undertake major projects involving complete system designs. The end users they deal with are corporate clients.

Value Added Suppliers -- These are mainly corporate reseller firms that cater to governmental and educational institutions' specific demands.

OEM Stores -- Reaching approximately 5,000 in number, these small firms sell PC parts and assembled PCs either to end users or lower-end distributors.

Retail Channels -- These consist of large-scale retail chains such as Metro and Carrefour, as well as vendor stores like Bimeks or Teknosa. E-retail companies are also in this division.

Global brands constitute the largest share in Indeks's sales volume. Global companies including IBM, HP, Cisco, Microsoft, and Toshiba outsource their distribution functions in a bid to focus on core activities such as marketing and project management. With years of experience in the sector and efficient communication channels with a vast network of dealers, wholesaler companies such as Indeks make the distribution process considerably more efficient. Since most of the large global companies (like IBM, Microsoft and HP) have offices in Turkey, Indeks procures the products directly from their local offices.

Plans

- Indeks has recently acquired a 40,000-sqm building, where it plans to combine its logistics facilities before the end of 2006. The Company finances the US$15 investment through long term foreign loans and leasing. Within the next 2 years, Indeks plans to develop its logistics capabilities to provide logistics services to the IT sector.

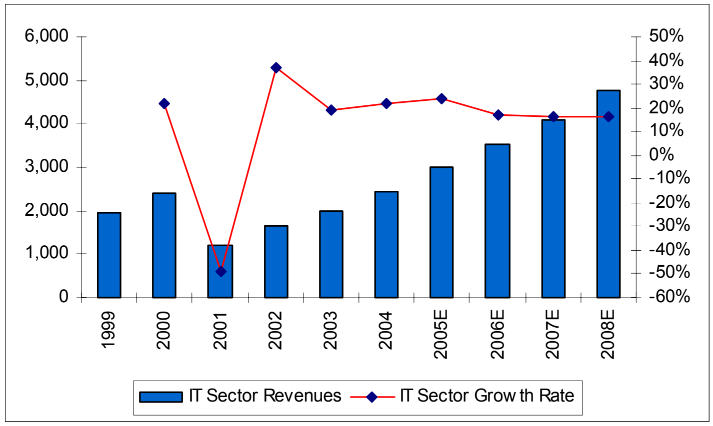
- Indeks also plans to engage in manufacturing in the future, particularly in OEM production.

- In order to expand its profit margins, Indeks also plans to initiate a service facility, which is to become the largest organised service network in Turkey. Accordingly, Indeks will be able to provide technical service to end-users, thereby bypassing suppliers such as HP and IBM.

THE SECTOR

According to International Data Corporation (IDC), Turkish IT sector grew by 24% CAGR within 1997-2000, having reached a record US$2.4 bn turnover by the end of 2000. The 2001 economic crisis led to a c50% contraction in the sector to US$1.2 bn turnover, due to the postponement of IT investments by the government and the private sector, as well as to the declining purchasing power of the population. In subsequent years, macroeconomic recovery and realisation of pent up demand in the private sector led to a 20% CAGR for the IT sector. For the years ahead, IDC expects the sector turnover to grow at an 18% CAGR to above US$4.5 bn by 2008.

Exhibit 9: Sector Revenues (US$mn) vs. Growth Rate (1999-2008)



Source: International Data Corporation

Revenue Breakdown of the Sector

IT sector mainly comprises 4 sub-groups: Hardware, Software, Consumable Products and IT Services. In 2004, the sector generated revenues in excess of US$2.4 bn, which was dominated by the hardware sector with a 58.7% share. IT Services ranked second with a 20.7% share, followed by Software (13%) and Consumable Products (7.4%). Indeks is the leading company in the IT sector (excluding services) with a 23.5% market share, with US$566 mn of consolidated revenues as at YE05.

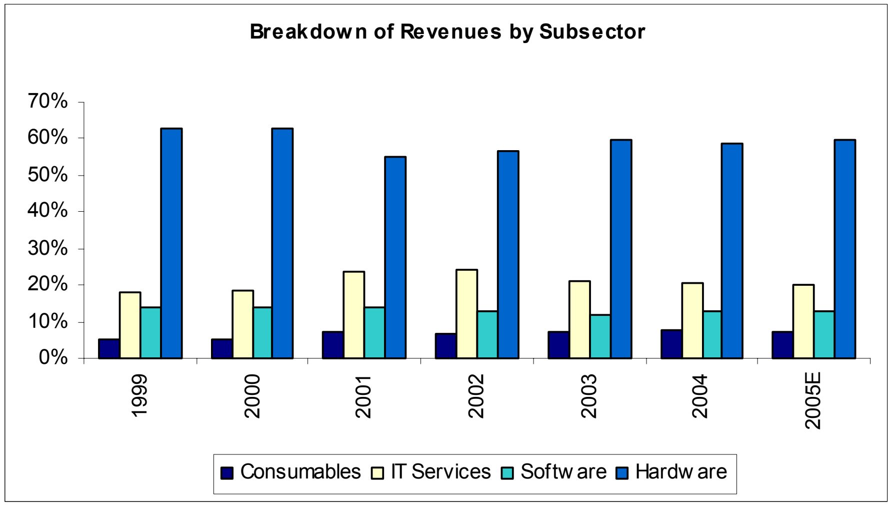
Exhibit 10: Sector Revenues (US$mn) vs. Growth Rate (2004-2015)

MARKET TURNOVER mnUS$	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	CAGR
Consumables	185	222	260	301	350	392	435	470	498	523	549	577	10%
IT Services	501	602	698	803	923	1,034	1,147	1,239	1,314	1,379	1,448	1,521	10%
Software	316	391	453	553	674	755	838	905	959	1,007	1,058	1,110	11%
Hardware	1,423	1,792	2,097	2,433	2,822	3,161	3,508	3,789	4,016	4,217	4,428	4,649	10%
TOTAL	**2,425**	**3,007**	**3,508**	**4,090**	**4,769**	**5,341**	**5,929**	**6,403**	**6,787**	**7,127**	**7,483**	**7,857**	
Sector Growth													
Consumables	30%	20%	17%	16%	16%	12%	11%	8%	6%	5%	5%	5%	
IT Services	18%	20%	16%	15%	15%	12%	11%	8%	6%	5%	5%	5%	
Software	32%	23%	16%	22%	22%	12%	11%	8%	6%	5%	5%	5%	
Hardware	20%	26%	17%	16%	16%	12%	11%	8%	6%	5%	5%	5%	
Total	**22%**	**24%**	**17%**	**17%**	**17%**	**12%**	**11%**	**8%**	**6%**	**5%**	**5%**	**5%**	

Source: IDC & EFG Istanbul Estimates

Hardware -- Hardware market has the largest share among IT sector groups since 1995. The market, which consists of desktop, laptop and server PCs, grew by 26% and 20% in 2003 and 2004, respectively. In the market where over 950k units of hardware were sold in 2004, desktop pc hardware led sales with a 75% market share. Hardware market had reached a scale of US$1.5 bn in 2000 prior to the economic crisis, during which it contracted by more than 50%. Due to unfavourable macro conditions, much of the public and private technological infrastructure investments were either scaled down or called off, resulting in a market turnover of as low as US$700 mn in 2001. Eventually, as a result of recovering macroeconomic conditions and pent up demand, total hardware units sold surged from 290k in 2001 to over 950k in 2004. The share of global brands in the market dropped from 44% in 2003 to 38% in 2004, reflecting increased price sensitivity in a more competitive environment. Indeks is the market leader with a 28% share in the hardware segment.

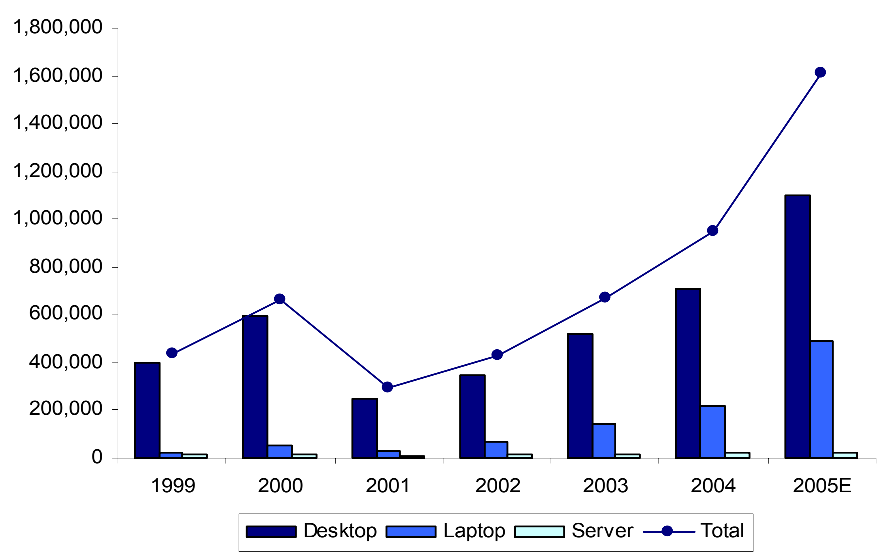
Exhibit 11: Breakdown of Revenues by Subsector



Source: IDC

Desktop PCs constitute the largest share in unit sales in the hardware group. In 2001, only 250k units were sold as a result of the economic crisis, which was 58% lower yoy. From 2001 to 2004, number of units sold exceeded 700k with a 40% CAGR in tandem with the macroeconomic recovery. Desktop PC market is highly segmented with major global brands commanding a 20% market share, while OEMs account for the remainder.

Exhibit 12: PC Sales 1999-2005

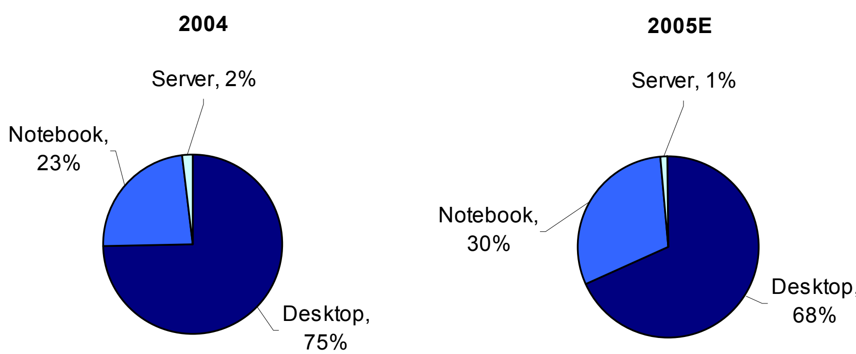


Source: IDC

On the other hand, the laptop market, which is dominated by global brands, is relatively less segmented. HP, Toshiba, IBM, Dell, Acer and Fujitsu-Siemens control 72% of the market as of 2004. The limited upgrade flexibility of laptops and consumers' demand for extended guarantees for the relatively fragile laptops have paved the way for global brands' leadership in the market. Market penetration of laptops is lower compared to desktop PCs; however, it has almost doubled in 2004 compared to 2001. Declining prices have rendered laptops more affordable for consumers. According to IDC, Indeks group commands a 24% market share in Laptop sales in 2004. We expect this share to further increase in 2005, driven by declining prices and special promotions.

Servers, which target mainly corporate customers, account for a low market share of 2% as at 2004. Excluding the outlier 2001 due to the economic crisis, server unit sales turned out within the 13k-16k range during the period spanning 1999 to 2004. In 2004, HP, IBM and Dell dominated 76% of the market, with Indeks Group having accounted for a 38% share of this segment.

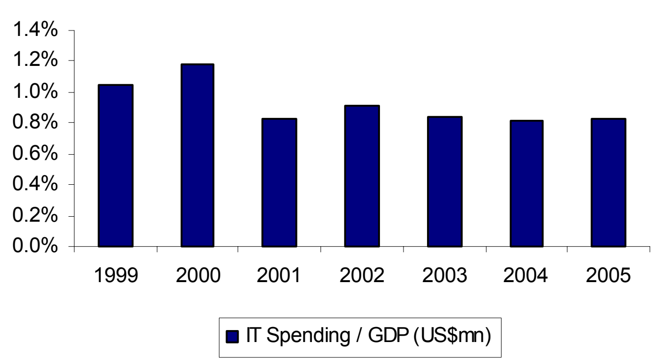
Exhibit 13: PC Sales Breakdown 2004-05



Source: IDC

Compared to European countries, computer penetration in Turkey is still limited. According to the latest figures released by the State Statistics Institute, only 13% of households have a computer, which is well below the EU average of 58%. Among European countries, Greece and the UK rank on the lower and higher ends of the household computer ownership spectrum, with respective ratios of 33% and 70%.

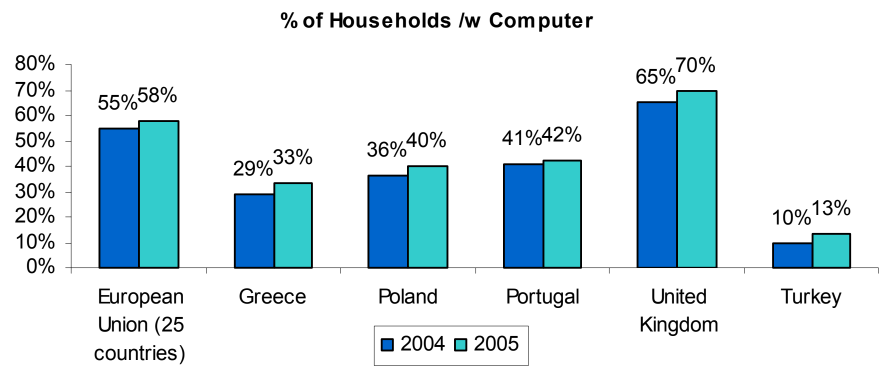
Exhibit 14: IT Spending / GDP



Source: IDC

Turkey's IT spending to GDP ratio has followed a stable pattern over the recent years, though still remaining below the European average of c4.5%. According to IDC estimates, the ratio is expected to increase to 1.1% levels by 2008.

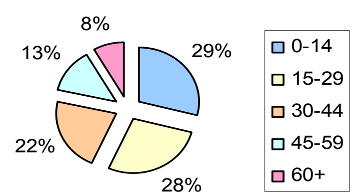
Exhibit 15: PC Penetration



Source: SSI & Eurostat

Increased public and private technology investments in tandem with the macroeconomic recovery following 2001, coupled with the fact that the below-25 age group constitutes 47% of the Turkish population, are major growth drivers for the IT sector. IDC expects Turkish IT sector to grow by 18.2% CAGR within 2004-08. The ongoing need to increase productivity in private sector and public institutions is expected to prompt increased IT infrastructure investments in the coming years.

Exhibit 16: Distribution of Turkish Population by Age



Source: SSI

Software -- Having contracted by 48% yoy in 2001 to US$170 mn, software market sales exceeded US$300 mn in 2004, parallel to an increase in hardware sales. The software market's limited 13% share in the IT sector is attributable primarily to the abundance of pirate software in Turkey. Office software product sales suffer the most from pirated material. Indeks estimates that almost 80% of the software used in Turkey is pirated compared to 35% in the US. Nevertheless, we expect adequate solutions and penalties to encourage usage of copyrighted material to be introduced en route to Turkey's EU membership.

Consumable Products -- Comprising all types of consumable products, this segment makes up 8% of the IT sector. Consumable products' sales volume has reached US$180 mn with a 30% yoy increase in 2004.

IT Services -- Given higher resilience to economic downturns due to addressing some essential requirements of IT systems, the segment was affected less from the 2001 crisis and thus grew by a less aggressive 14% within 2000-04.

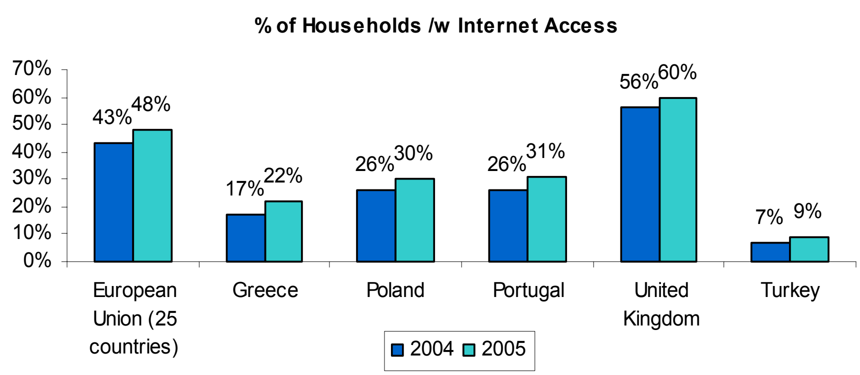
Other Factors to Reinforce Growth

- **Increased Governmental Spending --** Through its E-Transformation program, the government is aiming to increase the utilisation of information technology in governmental processes, in addition to enhancing the efficiency of public administration. E-transformation process is aimed at integrating the public with the government through IT media. The process envisages the transfer of bureaucratic processes to digital media, in a bid to enhance the efficiency of back-office processes. An increasing number of public administration services are targeted to be available through the internet, which would improve the efficiency of the operations and their accessibility by the public. E-transformation is expected to involve public data access points, which will provide online access to the public. The education and finance ministries as well as the customs office are only a few of the various institutions that will employ online services and digital databases. These developments are expected to eventually increase spending in the IT sector.

- **Competition in the Telecom Sector --** Turk Telecom privatisation and Telsim's acquisition by Vodafone constitute two key sources of investment in the sector. Furthermore, the emergence of competition will ultimately force companies operating in the sector to seek more efficient and cost-effective IT solutions.

- **Developing E-Trade and Internet Penetration --** According to State Statistics Institute, in Turkey only 9% of the households have internet access, compared to an average of 48% in the EU, 22% in Greece and 60% in the UK. Of all the households that have internet access, 52% connect to the internet through dial up services and 19% by ADSL. As of 2005, Turkey has over a million of ADSL subscribers. We expect increased e-trading to bolster internet penetration.

Exhibit 17: Internet Penetration



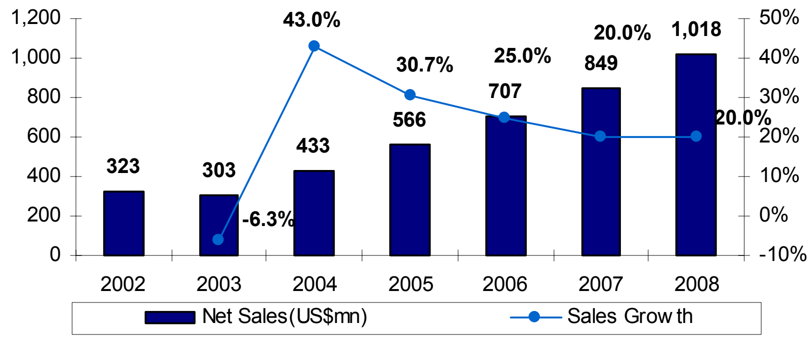
Source: SSI & Eurostat

Financial Analysis

Sales

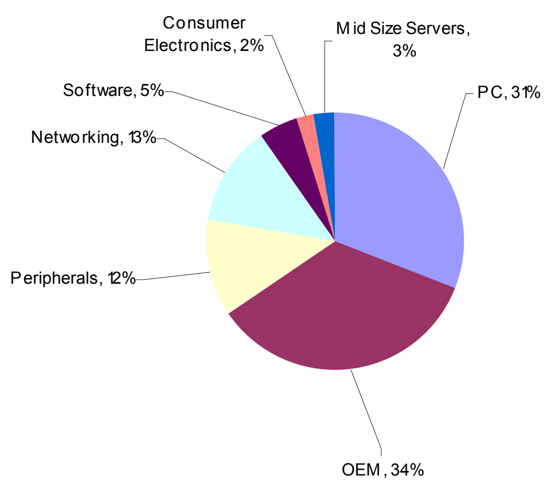
Indeks recorded 30.7% yoy consolidated revenue growth to US$566 mn in 2005, up from US$433 mn in 2004. 4Q05 revenues of US$195 mn represent a 23% yoy growth over the US$159 mn recorded in 4Q04. The surge in revenues is attributable to overall sector growth, driven by consumers' higher purchasing power as well as a positive economic outlook. Accordingly, the number of PCs sold has increased 46% yoy.

Exhibit 18: Indeks Revenues 2002-2005



Source: EFG Istanbul & Company Data

Exhibit 19: Indeks Breakdown of Revenues 2005



Source: EFG Istanbul & Company Data

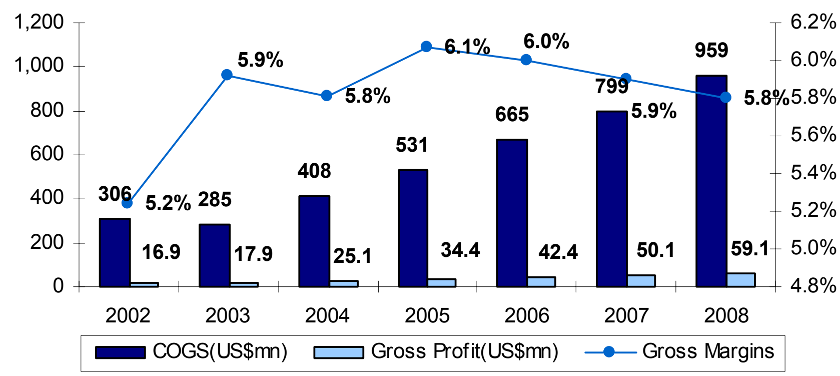
PC, OEM, and networking sales constitute 34%, 31%, and 13%, respectively, of 2005 revenues, followed by peripherals (12%) and software (5%). Mid-size servers and consumer electronics account for respective shares in revenues of 3% and 2%. Indeks aims to raise the share of consumer electronic, where it enjoys higher margins, to around 5% of revenues.

Around 85% of Indeks's sales are FX-denominated, with more than 95% of the products being priced in the currency at which they are acquired. Consequently, Indeks assumes limited currency risk. The Company's risks are mainly on the macro side, since the depreciation of the TRY and a potential deterioration in the macro environment would reduce consumers' purchasing power. Excluding the services sector, IDC projects 19% sales CAGR for the IT sector within 2004-2008. Indeks's sales increased by 31% yoy in 2005, compared to the IDC sector growth rate estimate of 24%. Given that IDC's sector growth estimates are rather conservative and that Indeks tends to outperform the sector, we project Indeks's consolidated group sales to expand by 11% CAGR within 2006-2016. As they are still at a planning stage, we have not incorporated potential contributions from the planned entry to manufacturing, service and logistics businesses into our model.

COGS and Gross Profit

The Company's gross margins have historically varied between 5.8-6%, having improved slightly to 6.07% in 2005 from 5.8% in 2004. Network products provide the highest mark-up, whereas hardware and software rank on the lower end of the profitability scale. Indeks arranges special deals with suppliers to receive further discounts in case of early payment, which contributes to gross margins. We expect rising competition in the sector to lead to a slight decline in gross margins to 5.4% levels in the coming years.

Exhibit 20: COGS & Gross Margins



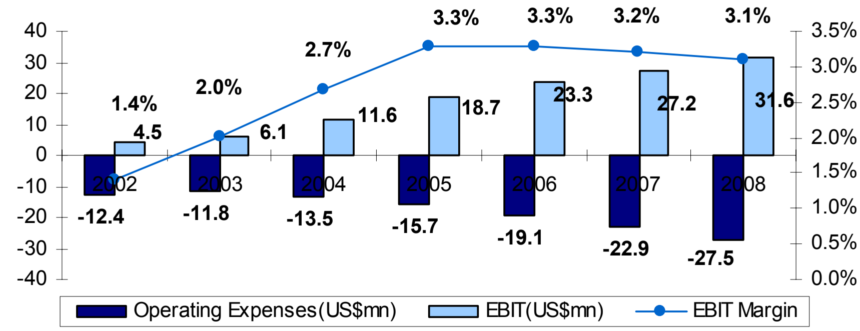
Source: EFG Istanbul& Company Data

Gross profit increased by 36% yoy to US$34.4 mn in 2005, up from US$25.1 mn in 2004. IT retail sector currently lacks significant competition, with several retail companies such as Teknosa and Bimeks dominating the market. As IT retail firms increase their share in Indeks's sales, they will enjoy a higher bargaining power, which will cause a slight decline in Indeks's gross margins in the coming years.

Operating Expenses and EBIT

Sales & distribution expenses comprise 61% of the Company's operating expenses, while general & administrative expenses constitute the remaining 39%.

Exhibit 21: Operating Expenses and EBIT



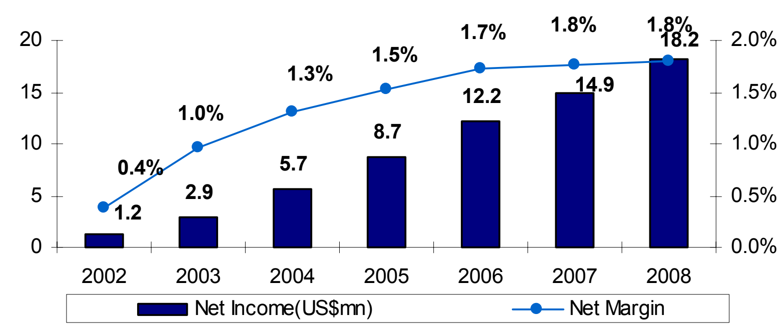
Source: EFG Istanbul & Company Data

Personnel expenses make up 51% of total operating expenses, followed by logistics expenses with 13%. Indeks runs its own logistics fleet for transportation of products, since this paves the way for better logistic coordination and efficiency. Operating expenses currently make up 2.8% of sales. We expect a slight decline in operating expenses in 2006 and 2007 to 2.7% levels, as the Company combines its logistics activities in the recently purchased 40,000-sqm facility.

Profitability

Given an intensely competitive environment and few barriers to entry, operating efficiency appears crucial to achieve profit margin expansion. As such, we believe the Company's main goal will be to improve operating efficiency amid high sales growth in the short term.

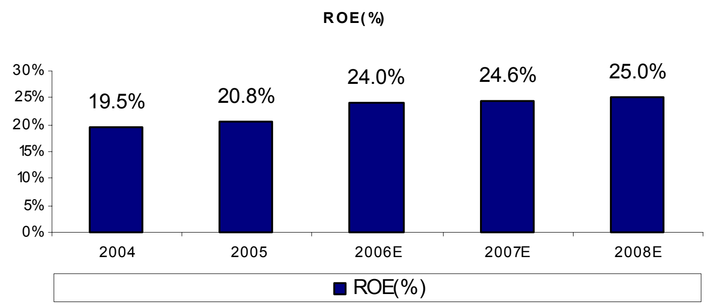
Exhibit 22: Net Income and Net Margin



Source: EFG Istanbul & Company Data

Indeks posted US$8.6 mn of net earnings in 2005, implying a 52% increase yoy, up from US$5.7 mn in 2004. Indeks's net margin in 2005 was 1.5%. The Company is planning to enter service, manufacturing and logistics businesses, which are relatively more profitable, to increase its net margins. Nevertheless, we have not incorporated these plans into our forecast given that they are still at a planning stage. The decline in the corporate tax rate from 30% to 20% is estimated to have a positive effect on net margins as well. As of 2005, the effective tax rate for the Company was 19%, since it benefited from tax advantages granted to some of its operations carried out through free trade zones. With the corporate tax rate cut to 20% as of January 2006, we expect the effective tax rate for the Company to further decrease to 14% levels until 2010, at which year the Company's free trade zone licence is set to expire. We expect Indeks's profitability to increase in the coming years driven by notable sales growth and the Company to attain a long-term net profit margin of 1.8%.

Exhibit 23: ROE (%)



Source: EFG Istanbul & Company Data

Exhibit 24: IFRS Financials (US$mn)*

IFRS Balance Sheet (US$)	2001	2002	2003	2004	2005	2006E	2007E	2008E
CURRENT ASSETS	***74.2***	***67.8***	***85.6***	***127.0***	***164.3***	***200.4***	***237.9***	***282.1***
Cash&Marketable Securities	0.5	2.0	2.8	7.3	12.8	12.6	12.2	10.9
Short Term Trade Receivables	44.0	47.2	55.9	81.9	91.0	113.7	136.5	163.8
Due from related parties	0.0	0.0	0.0	0.0	1.3	1.6	2.0	2.4
Inventories	25.1	15.7	21.7	30.1	47.1	58.8	70.6	84.7
Other Current Assets	4.5	2.7	5.2	7.7	12.1	14	17	20
LONG TERM ASSETS	***7.6***	***7.0***	***8.1***	***8.5***	***8.3***	***25.2***	***25.2***	***25.2***
Long Term Financial Assets	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Tangible Fixed Assets	2.4	2.3	2.8	2.9	2.8	20	20	20
Intangible Fixed Assets	1.2	1.1	1.1	5.4	0.9	0.9	0.9	0.9
Goodw ill	4.0	3.4	4.1	0.0	4.3	4.3	4.3	4.3
Other Long Term Assets	0.0	0.0	0.0	0.0	0.1	0	0	0
TOTAL ASSETS	**81.8**	**74.9**	**93.7**	**135.5**	**172.6**	**225.5**	**263.1**	**307.3**
SHORT TERM LIABILITIES	***64.8***	***58.7***	***72.0***	***96.4***	***125.7***	***153***	***180***	***212***
Financial Loans	4.6	2.3	7.8	12.4	17.8	19.3	19.3	19.3
Trade Payables	53.4	51.4	57.8	79.5	99.1	123.9	148.7	178.4
Other Short Term Payables	5.8	4.1	4.7	3.1	1.2	1.4	1.2	1.3
Advances Received Against Orders	0.6	0.2	1.5	0.3	0.9	0.6	0.6	0.7
Provisions	0.3	0.8	0.3	1.1	2.9	3.1	4.7	5.2
Other liabilities	0.0	0.0	0.0	0.0	3.8	4.7	5.7	6.8
LONG TERM LIABILITIES	***0.6***	***0.6***	***0.9***	***1.0***	***0.4***	***15.9***	***14.5***	***13.1***
Financial Loans						13.5	12.0	10.5
Lease Payables						2.0	2.0	2.0
Provisions	0.6	0.6	0.9	1.0	0.4	0.4	0.5	0.6
TOTAL LIABILITIES	***65.4***	***59.3***	***72.9***	***97.4***	***126.0***	***168.9***	***194.8***	***224.8***
MINORITY INTEREST	**1.0**	**0.8**	**0.3**	**0.4**	**0.8**	**1.2**	**1.5**	**1.8**
Minority Interest	1.0	0.8	0.3	0.4	0.8	1.2	1.5	1.8
SHAREHOLDERS EQUITY	**15.4**	**14.7**	**20.5**	**37.7**	**45.8**	**55.4**	**66.8**	**80.7**
Total Liab. & Sh.Equity	**81.8**	**74.9**	**93.7**	**135.5**	**172.6**	**225.5**	**263.1**	**307.3**

IFRS Income Statement (US$mn)	2002	2003	2004	2005	2006E	2007E	2008E
Net Sales	**323.2**	**302.7**	**433.0**	**565.8**	**707.3**	**848.7**	**1,018.4**
COGS	**-306.3**	**-284.8**	**-407.8**	**-531.4**	**-664.8**	**-798.6**	**-959.4**
Gross Profit	**16.9**	**17.9**	**25.1**	**34.4**	**42.4**	**50.1**	**59.1**
Operating Expenses	**-12.4**	**-11.8**	**-13.5**	**-15.7**	**-19.1**	**-22.9**	**-27.5**
Operating Profit	**4.5**	**6.1**	**11.6**	**18.7**	**23.3**	**27.2**	**31.6**
EBITDA	**4.7**	**6.4**	**12.1**	**19.3**	**23.9**	**27.9**	**32.4**
Net Other Income/Expense	**-0.2**	**-2.0**	**1.7**	**-1.0**	**-1.0**	**-1.2**	**-1.4**
Financial Expenses	**-8.6**	**-3.7**	**-8.1**	**-6.7**	**-7.0**	**-6.9**	**-6.8**
Minority Interest	**0.0**	**0.0**	**0.0**	**-0.3**	**-1.2**	**-1.6**	**-1.9**
Profit Before Tax	**2.0**	**4.4**	**9.1**	**10.7**	**14.1**	**17.5**	**21.4**
Net Income	**1.2**	**2.9**	**5.7**	**8.7**	**12.2**	**15.0**	**18.4**
Gross Margin	***5.2%***	***5.9%***	***5.8%***	***6.1%***	***6.0%***	***5.9%***	***5.8%***
Operating Margin	***1.4%***	***2.0%***	***2.7%***	***3.3%***	***3.3%***	***3.2%***	***3.1%***
EBITDA Margin	***1.5%***	***2.1%***	***2.8%***	***3.4%***	***3.4%***	***3.3%***	***3.2%***
PBT Margin	***0.6%***	***1.4%***	***2.1%***	***1.9%***	***2.0%***	***2.1%***	***2.1%***
Net Margin	***0.4%***	***1.0%***	***1.3%***	***1.5%***	***1.7%***	***1.8%***	***1.8%***

	2004	2005	2006E	2007E	2008E
P/E	19.4	12.7	9.1	7.3	6.0
EV/EBITDA	9.7	7.8	6.7	6.0	5.3
Turnover Ratios					
Receivable Days	57	55	56	56	56
Inventory Days	23	26	24	24	24
Payable Days	61	61	62	62	62
ROE	19.5%	20.8%	24.0%	24.6%	25.0%
ROA	5.0%	5.6%	7.5%	7.5%	7.4%
Debt/Equity(%)	33%	39%	59%	47%	37%

Our rating system comprises the following designations: MARKET OUTPERFORMER (MO), MARKET PERFORMER (MP), MARKET UNDERPERFORMER (MU). The relative upsides to these targets implied by current Mcaps is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. The upside of the market is determined through the aggregate upside of our coverage calculated using free float Mcaps. Our coverage comprises 32 stocks traded on the ISE, which account for around 84% of the total Mcap of the ISE-100.

Summary of Our New Stock Rating System

Rating	Required Relative Upside
MARKET OUTPERFORMER (MO)	
• **First 50% tranche of the ISE-100**	>=10
• **Next 40% tranche of the ISE-100**	>=15
• **Last 10% tranche of the ISE-100**	>=25
MARKET PERFORMER (MP)	<+10 & >-10
MARKET UNDERPERFORMER (MU)	<=-10

We define three major categories in ISE-100 that indirectly apply to our coverage as well: **Large cap bluechips**, which we define as stocks accounting for a c50% weight in the ISE-100, generally comprising 7-10 stocks (currently 8). **Medium caps**, which we define as stocks whose combined weight constitute the next 40% tranche of the ISE-100 (currently there are 32 stocks in this tranche). **Small caps**, constituting the last 10% tranche of the ISE-100 (currently there are 60 stocks in this tranche). We require different relative upsides for each category due to differences such as liquidity and coverage.

Industry Ratings

Our investment horizon for industry ratings is again 12 months. We have two sets of industry ratings:

Industry Performance Ratings	Required Relative Return
MO	>=10
MP	<+10 & >-10
MU	<=-10

- **Industry Outlook --** This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are Positive, Neutral, and Negative.
- **Performance --** This rating provides our analyst's opinion of a stock's performance in that particular industry over the next 12 months. Any difference between industry outlook and performance could stem primarily from stock valuations in that industry. The ratings are same as stock ratings of **MO, MP, and MU,** and the **benchmark index the ISE-100.**

Market Call (3-12m horizon)	Required Abs. Upside
BUY	>=15
NEUTRAL	<15 & >-15
SELL	<=-15

Market Call

Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are BUY, NEUTRAL, and SELL.**

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