

Prospectus dated 18 October 2006



***Türkiye Cumhuriyeti***  
***(The Republic of Turkey)***

***Euro 500,000,000***

***5.50 per cent. Notes due 2017***  
***(to be consolidated and form a single series with The Republic's***  
***Euro 1,000,000,000 5.50 per cent. Notes due 2017 issued on 16 February***  
***2005)***

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***Issue Price: 96.867 per cent.***  
***(plus accrued interest from 16 February 2006)***

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*The Notes will be issued on 19 October 2006. Interest on the Euro 500,000,000 5.50 per cent. Notes due 2017 of Türkiye Cumhuriyeti (The Republic of Turkey) (the "Notes") is payable annually in arrear on 16 February of each year at the rate of 5.50 per cent. per annum. Unless previously purchased and cancelled the Notes will be redeemed at their principal amount together with any accrued but unpaid interest (being for the period from and including 16 February 2016 to but excluding 16 February 2017) and are not redeemable prior to that date. See "Terms and Conditions of the Notes — Redemption."*

The Notes, upon and to the extent that the Temporary Global Note (as defined below) is exchanged for the Permanent Global Note (as defined below), will be fully fungible with, rank equally, and form a single issue and series with the Euro 1,000,000,000 5.50 per cent. Notes due 2017, which were issued on 16 February 2005. The total principal amount of the previously issued notes and the Notes now being issued will be Euro 1,500,000,000.

Application has been made to the Irish Financial Services Regulatory Authority (the "IFSRA"), as the competent authority under Directive 2003/71/EC, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and trading on its regulated market.

See "*Recent Developments*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

**PARTICULAR ATTENTION IS DRAWN TO THE SECTION ENTITLED "RISK FACTORS" BELOW WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.**

The Notes have not been and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act") and are subject to US tax law requirements. Subject to certain exemptions, the Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of US persons.

The Notes will be represented initially by a Temporary Global Note without coupons, which will be deposited with a common depository for Euroclear Bank N.V./S.A. ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream Luxembourg"), on or about 19 October 2006 (the "Closing Date"). The Temporary Global Note will be exchangeable for interests in a Permanent Global Note, without interest coupons, on or after a date which is expected to be 28 November 2006 upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes in bearer form in the denomination of Euro 2,000 and integral multiples of Euro 1,000 thereafter with coupons attached only in certain limited circumstances. See "*Summary of Provisions relating to the Notes while in Global Form*".

**DZ BANK AG**

**T.C. Ziraat Bankasi A.Ş.**

**Morgan Stanley**

Türkiye Cumhuriyeti (The Republic of Turkey) ("The Republic", the "Issuer" or "Turkey"), accepts responsibility for the information contained in this Prospectus.

The Republic declares that having taken all reasonable care to ensure that such is the case the information contained in this document is, to the best of its knowledge, in accordance with the facts and makes no omission likely to affect its import.

This Prospectus has been approved by the Irish Financial Services Regulatory Authority, which is the competent authority for the purpose of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in Ireland, as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Ireland.

The Republic has confirmed to the Managers named under "Subscription and Sale" below that this Prospectus contains all information which is (in the context of the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions, or intentions by The Republic expressed herein are honestly held or made and are not misleading in any material respect; that this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper inquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the Notes or any information supplied by The Republic or such information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by The Republic or the Managers as defined under "Subscription and Sale". The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to the date of this Prospectus. Unless otherwise indicated, all information in this Prospectus is given as of the date of this Prospectus.

No representation or warranty is made or implied by the Managers or any of their respective affiliates, and neither the Managers nor any of their respective affiliates make any representation or warranty or accept any responsibility as to the accuracy or completeness of the information in this Prospectus. Neither the delivery of this Prospectus, nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or the date that this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the conditions of The Republic since the date thereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the issue is correct at any time subsequent to the date on which it is supplied, or, if different, the date indicated in the document containing the same.

Unless otherwise stated, all annual information, including budgetary information, is based upon calendar years. Figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be an arithmetical aggregate of their components.

**This Prospectus does not constitute an offer to sell or an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction, nor does this Prospectus constitute an offer or an invitation to subscribe for or purchase any Notes and it should not be considered as a recommendation by The Republic or the Managers that any recipient of this Prospectus should subscribe for or purchase any Notes. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by The Republic and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes, see "Subscription and Sale". Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise)**

**and status of The Republic.**

The Notes have not been and will not be registered under the Securities Act, or any state securities law, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of certain further restrictions on offers and sales of Notes and distribution of this Prospectus, see "Subscription and Sale".

In this Prospectus, all references to "New Turkish Lira" and "YTL" are to the lawful currency for the time being of The Republic, references to "€", "Euro" or "euro" are to the single currency which was introduced at the beginning of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended and all references to "dollars", "U.S.\$" and "\$" are to the lawful currency for the time being of the United States of America.

Translations of amounts from New Turkish Lira to dollars or, as the case may be, euro are solely for the convenience of the reader and, unless otherwise stated, are made at the exchange rate prevailing at the time as of which such amounts are specified. The Central Bank of Turkey foreign exchange buying rate for United States dollars on October 11, 2006 was YTL 1.4827 = U.S.\$1.00 and the Central Bank of Turkey foreign exchange buying rate for euro on October 11, 2006 was YTL 1.8602 = €1.00. No representation is made that the New Turkish Lira or dollar amounts referred to herein could have been or could be converted into dollars or New Turkish Lira, as the case may be, at any particular rate or at all.

**In connection with the issue of the Notes, Morgan Stanley & Co. International Limited (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.**

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## SUMMARY

*This summary should be read as an introduction to the Prospectus. Any decision to invest in the Notes by an investor should be based on consideration of the Prospectus as a whole. Where a claim relating to the information contained in the Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.*

<b>Issuer</b> .....	The Republic of Turkey.  The Republic of Turkey is located in southwestern Asia, where it borders Iran, Armenia, Georgia, Azerbaijan, Iraq and Syria, and southeastern Europe, where it borders Greece and Bulgaria, with a total territory (inclusive of its lakes) of approximately 814,578 square kilometers. Turkey's population, as of June 2005, was estimated to be 72.0 million.  The Republic of Turkey was founded in 1923 and currently has a parliamentary form of government. It has recently undertaken many reforms to strengthen its democracy and economy, enabling it to begin accession negotiations with the European Union.
<b>Securities Offered</b> .....	Euro 500,000,000 principal amount of 5.50 per cent. Notes due 2017.
<b>Maturity Date</b> .....	16 February 2017.
<b>Issue Price</b> .....	96.867 per cent. of the principal amount of the Notes plus accrued and unpaid interest from and including 16 February 2006 to but excluding 19 October 2006.
<b>Interest Payment Dates</b> .....	16 February of each year, commencing 16 February 2007.
<b>Status and Ranking</b> .....	The Notes, upon and to the extent that the Temporary Global Note is exchanged for the Permanent Global Notes, will be fully fungible with, rank equally with, and form a single issue and series with, The Republic's Euro 1,000,000,000 5.50 per cent. Notes due 2017, which were issued on 16 February 2005. Following the issuance of Notes pursuant to this Prospectus, the aggregate principal amount of the 5.50 per cent. Notes due 2017 will be Euro 1,500,000,000.  Upon issuance, the Notes will be direct unconditional and general obligations of the Issuer and will rank equally with other external debt denominated in currencies other than Turkish Lira which is (i) payable to a person or entity not resident in Turkey and (ii) not owing to a Turkish citizen. See "Terms and Conditions of the Notes — Status" and "Terms and Conditions of the Notes — Negative Pledge" in this Prospectus.
<b>Markets</b> .....	The Notes are offered for sale in those jurisdictions where

it is legal to make such offers. See "Subscription and Sale".

<b>Listing</b> .....	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.
<b>Cross Acceleration</b> .....	Any other present or future External Indebtedness of The Republic for or in respect of money borrowed or raised, in an amount in aggregate of not less than U.S.\$40,000,000 (or its equivalent in other currencies), becomes due and payable prior to its stated maturity otherwise than at the option of The Republic or any amount of such External Indebtedness in an aggregate amount of not less than U.S. \$25,000,000 (or its equivalent in other currencies) is not paid when due or, as the case may be, within any applicable grace period; all as more fully set out in this Prospectus.
<b>Negative Pledge</b> .....	The Republic will not, so long as any of the Notes remains outstanding, create or permit to exist any Lien (other than a Permitted Lien) for any purpose upon or with respect to any International Monetary Assets of The Republic; or any Lien (other than a Permitted Lien) upon or with respect to any other assets of The Republic to secure External Indebtedness of any Person; or any Exportable Assets of any Government-Owned Enterprise to secure External Indebtedness of The Republic; all as more fully set out in this Prospectus.
<b>Form</b> .....	The Notes will be in bearer form, in denominations of €2,000 and integral multiples of €1,000 thereafter.
<b>Clearance and Settlement</b> .....	The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will only become exchangeable in whole, but not in part, for Notes in definitive form in limited circumstances all as more fully explained in this Prospectus.
<b>Payment of Principal and Interest</b> .....	Payments of principal and interest shall be made only against presentation of Notes or the presentation and surrender of Coupons, as appropriate, at the specified office of any Paying Agent outside the United States by cheque drawn on, or by transfer to a euro account.

<b>Default</b> .....	The Notes will contain events of default, the occurrence of which may result in the acceleration of the Issuer's obligations under the Notes prior to maturity. See Condition 8 — "Events of Default" in this Prospectus.
<b>Prescription Period</b> .....	Ten years in the case of principal and five years in the case of interest, from the appropriate Relevant Date as defined in Condition 7 (Taxation) of this Prospectus.
<b>Use of Proceeds</b> .....	The net proceeds of the issue of the Notes, expected to amount to Euro 502,293,904.11 will be used for the general funding purposes of The Republic.
<b>Risk Factors</b> .....	<p>Risks associated with the Notes generally include: 1) the trading market for debt securities may be volatile and may be adversely impacted by many events; 2) there could be no active trading market for the Notes; 3) the Notes may not be a suitable investment for all investors; 4) the Notes are unsecured; 5) the terms of the Notes may be modified, waived or substituted without the consent of all of the holders; 6) if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination of €2,000 only and Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade; 7) Turkey is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it; 8) there can be no assurance that English law in effect as at the date of this Prospectus will not be modified; 9) there may be certain legal restraints in relation to investment in the Notes with regard to your particular circumstances.</p> <p>Risks associated with The Republic generally include: 1) there can be no assurance that Turkey's credit rating will not change; 2) changes in The Republic's domestic and international political and economic environment may have a negative effect on its financial condition; 3) the risks arising from the relatively short maturity structure of domestic borrowing and the potential deterioration in financing conditions as a result of market, economic and political factors, which may be outside The Republic's control, may jeopardize the debt dynamics of The Republic; 4) there are potential inflation risks; 5) there are risks associated with the foreign exchange rate of The Republic's currency; 6) there are risks associated with the potential delay in The Republic's accession to the European Union which may have a negative impact on The Republic's economic performance and credit ratings; and 7) there are risks associated with the outbreak of bird flu which may have a significant effect on the Republic's economy and population.</p>
<b>Fiscal Agency</b>	The Notes will be issued pursuant to the fiscal agency

<b>Agreement</b> .....	agreement dated 16 February 2005 which is amended and supplemented by a supplemental fiscal agency agreement dated 19 October 2006.
<b>Taxation</b> .....	For a discussion of the tax consequences associated with the Notes, see "Taxation" in this Prospectus. Investors should consult their own tax advisors in determining the tax consequences to them of the purchase, ownership and disposition of the Notes.
<b>Governing Law</b> .....	The Notes will be governed by and construed in accordance with the laws of England, except with respect to the authorization and execution of the Notes, which will be governed by the laws of the Republic of Turkey.

## RISK FACTORS

*You should read this entire Prospectus carefully. Words and expressions defined elsewhere in this Prospectus have the same meanings in this section. Investing in the Notes involves certain risks. In addition, the purchase of the Notes may involve substantial risks and be suitable only for investors who have the knowledge and experience in financial and business matters to enable them to evaluate the risks and merits of an investment in the Notes. You should make your own inquiries as you deem necessary without relying on The Republic or any underwriter and should consult with your financial, tax, legal, accounting and other advisers, prior to deciding whether to make an investment in the Notes. You should consider, among other things, the following:*

### 1. RISKS RELATING TO THE NOTES

#### **Risks related to the Notes generally.**

Set out below is a brief description of certain risks relating to the Notes generally.

#### ***The trading market for debt securities may be volatile and may be adversely impacted by many events.***

The market for the Notes issued by The Republic is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in European and other industrialized countries. There can be no assurance that events in Turkey, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect.

#### ***There could be no active trading market for the Notes.***

There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of The Republic. Although an application has been made to list and trade the Notes on the Regulated Market of the Irish Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop.

#### ***The Notes may not be a suitable investment for all investors.***

You must determine the suitability of investment in the Notes in the light of your own circumstances. In particular, you should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits and risks of investing in the Notes;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on your overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from your currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

***The Notes are unsecured***

The Notes constitute unsecured obligations of The Republic.

***The terms of Notes may be modified, waived or substituted without the consent of all of the Noteholders.***

The conditions of the Notes contain provisions for convening meetings of Noteholders to consider matters affecting their interests. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

***Minimum Denomination***

The Notes have a minimum denomination of €2,000. The Conditions provide that, for so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg (or other relevant clearing system) so permit, the Notes will be tradable in nominal amounts of the minimum denomination plus integral multiples of an amount €1,000 thereafter.

Definitive Notes will only be issued if (a) Euroclear or Clearstream, Luxembourg (or other relevant clearing system) is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 13 (Events of Default) occurs. If Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

***Turkey is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it.***

The Republic is a sovereign state. Although The Republic has waived its sovereign immunity in respect of the Notes, except for its sovereign immunity in connection with any actions arising out of or based on United States federal or state securities laws, enforcement in the event of a default may nevertheless be impracticable by virtue of legal, commercial, political or other considerations.

Because Turkey has not waived its sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it will not be possible to obtain a United States judgment against Turkey based on such laws unless a court were to determine that Turkey is not entitled under the United State Foreign Sovereign Immunities Act of 1976, as amended, to sovereign immunity with respect to such actions.

***There can be no assurance that the laws of England in effect as at the date of this Prospectus will not be modified.***

The conditions of the Notes are based on the laws of England in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

***Legal investment considerations may restrict certain investments.***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. You should consult your legal advisers to determine whether and to what extent (1) the Notes are legal investments for you, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## **2. RISKS RELATING TO THE REPUBLIC**

### ***There can be no assurance that Turkey's credit rating will not change***

Long-term debt of The Republic is currently rated BB- (Stable Outlook) by Standard and Poor's and Ba3 (Stable Outlook) by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes. The current ratings are sub-investment grade. They indicate that the Notes are regarded as having significant speculative characteristics, and that there are major ongoing uncertainties or exposure to financial or economic conditions which could compromise The Republic's capacity to meet its financial commitment on the Notes.

### ***Political and Economic Environment.***

The Republic has from time to time experienced volatile political, economic and social conditions and two financial crises in 1994 and 2001. It is possible that these may recur and, if they are sufficiently severe, affect The Republic's financial condition. Turkey has not defaulted on any principal or interest of any external debt represented by bonds issued in public international markets since it began issuing such bonds in 1988. In 1978, 1979 and 1980, Turkey rescheduled an aggregate amount of approximately \$3.95 billion of its external debt consisting of commercial and government credits, which represented 20.6% of Turkey's total outstanding external debt at that time. Turkey initiated the rescheduling to avoid a possible default under its external debt. Since that rescheduling, Turkey has always paid, when due, the full amount of principal and interest on its direct and indirect external debt. Turkey completed all payments under the rescheduling in July 1992.

Turkey has been a parliamentary democracy since 1923. In the 81 years since its formation, Turkey has had 59 governments and political disagreements have frequently resulted in early elections. In Turkey's most recent national elections, held in November 2002, the Justice and Development Party won a large majority in the Assembly. Recep Tayyip Erdogan has served as Prime Minister since March 2003.

Any negative changes in political environment, may affect the stability of the Turkish economy. In addition, the failure of the Turkish Government to implement its proposed economic and financial policies, or the failure of the International Monetary Fund (the "IMF") to complete periodic reviews of the reform program supported by the new 2005-2008 Stand-By Arrangement with the IMF, may also adversely affect the Turkish economy.

Under its constitution, Turkey's next parliamentary elections must be held no later than November 2007. However, there is a possibility that the Turkish Government could call an early election. There can be no assurances exactly when such an election might be called, or as to results of such an election or their impact on Turkey's political and economic environment.

### ***International Considerations.***

As a result of economic instability in many developed and emerging markets, the international financial markets have experienced a significant amount of volatility and many financial market indices have declined significantly. The potential impact of such volatility on the Turkish market and on Turkish securities is uncertain.

The Republic is located in a region which has been subject to ongoing political and security concerns, especially in recent years. Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with investment in Turkish securities. Political instability in the Middle East has increased since the terrorist attacks of September 11, 2001. The period since the commencement of military action of the United States and its allies in Iraq in March 2003 has been characterised by frequent guerrilla attacks in Iraq and increased risk of terrorist acts both against the United States and its allies. As an ally of the United States and a close neighbour of Iraq, Turkey has become a potential target for terrorist attacks. In recent years, The Republic has

experienced a number of terrorist incidents, including four bombings in November 2003 and a bombing in March 2004 in Istanbul. In addition, during 2006 Turkey experienced a series of bombings, including the August 2006 bombings in Istanbul, Antalya and Marmaris. If additional attacks occur in the future, Turkey's capital markets, levels of tourism in Turkey and foreign investments in Turkey, among other things, may suffer.

Furthermore, the recent military conflict between Israel and Hezbollah, an organization categorized by the United States government as a terrorist organization, in neighboring Lebanon has already destabilized the region and could worsen. The conflict is likely to have a negative impact on tourism in the region, including in the Republic.

### ***Refinancing Risk.***

The Republic has sizeable amounts of domestic and international debt. Public sector domestic debt stock was approximately YTL257.5 million and public sector external debt stock was approximately YTL90.8 million as of the end of the second quarter of 2005. The government debt and interest payments are projected to decline in the current financial environment. However, given the relatively short maturity structure of domestic borrowing, any deterioration in financing conditions as a result of market, economic and political factors, which may be outside The Republic's control, may jeopardize the debt dynamics of The Republic.

### ***Inflation Risk.***

In the past, The Republic experienced substantial inflationary pressures and inflation was one of the most serious problems faced by the Turkish economy during the last decade. As a result of the financial crises in November 2000 and February 2001, at the end of 2001, the Wholesale Price Index ("WPI") increased to 88.6% from 32.7% at the end of 2000 and the Consumer Price Index ("CPI") increased to 68.5% from 39.0% at the end of 2000. Since 2001, due to the Government policies intended to combat these high levels of inflation, which were supported by the 2002-2004 Stand-By Arrangement with the IMF, inflation in The Republic decreased substantially. WPI decreased to 13.8% at the end of 2004 and 2.7% at the end of 2005. CPI decreased to 9.3% at the end of 2004 and 7.7% at the end of 2005. In January 2005, the State Institute of Statistics introduced the Producer Price Index ("PPI") to replace WPI. The Republic's PPI and CPI for the December 2005 - September 2006 period was 11.54% and 6.65%, respectively. Although the rate of inflation has decreased substantially in recent years, there can be no assurance that inflation will not increase in the near future.

### ***Exchange Rate Risk and Exchange Rate.***

The depreciation of the New Turkish Lira against the U.S. dollar or other major currencies might adversely affect the financial condition of The Republic. Any significant depreciation of the New Turkish Lira against the U.S. dollar or other major currencies might also have a negative effect on The Republic's ability to repay its debt denominated in currencies other than the New Turkish Lira, including the amounts due under the Notes. As a result of the financial crises in November 2000 and February 2001, the Turkish Lira depreciated from TL675,004 per U.S. dollar at December 31, 2000 to TL1,446,510 per U.S. dollar at December 31, 2001 and then further depreciated to TL1,642,384 per U.S. dollar at December 31, 2002. As the Turkish Government began implementing economic and financial reforms supported by the stand-by arrangement with the IMF, the value of the Turkish Lira increased to TL1,393,278 per U.S. dollar at December 31, 2003. The Turkish Lira further appreciated to TL1,348,600 per U.S. dollar at December 31, 2004 and was YTL 1,3478 per U.S. dollar at December 30, 2005 and YTL 1.4824 per U.S. dollar at October 12, 2006. Although the value of the Turkish Lira against the U.S. dollar has increased significantly since the end of 2002, there can be no assurance that this trend will not reverse.

### ***Accession to the European Union.***

The Republic commenced negotiations on its accession to the European Union (the "EU") on October 3, 2005 and expects to join the EU at some point in the future. However, The Republic's accession depends on a number of economic and political factors relating to both Turkey and the EU. Although the shared objective of the negotiations is accession, these negotiations are an open-ended process, the outcome and timing of which cannot be guaranteed. More information is provided in the section entitled "Further Recent

Developments" under the heading "International Relations" on page 31 and potential delays in Turkey's accession to the EU may have a negative effect on Turkey's economic performance and credit ratings.

***Statistics.***

A range of ministries, along with the State Planning Organization, the Central Bank of Turkey and the State Institute of Statistics, produce statistics on Turkey and its economy. Turkey subscribes to the IMF's Special Data Dissemination Standards. Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and consequently the resulting data may vary from source to source. Unless indicated, the information and figures presented in this Prospectus have not been restated to reflect the effects of inflation. You should be aware that distortions caused by inflation may be present in such figures and information. As a result period-to-period comparisons may not be meaningful.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes which, subject to completion and amendment, will be endorsed on each Note in definitive form*

The Euro 500,000,000 5.50 per cent. Notes due 2017 (the "Notes", which expression includes any further Notes issued pursuant to Condition 12 (*Further Issues*) and forming a single series therewith) of Türkiye Cumhuriyeti (The Republic of Turkey) ("The Republic") have been authorised pursuant to the provisions of Articles 4 and 7 of the Law Regarding the Regulation of Public Finance and Debt Management (Law No. 4749). A fiscal agency agreement dated 16 February 2005 as amended and supplemented by the supplemental fiscal agency agreement dated 19 October 2006 (the "Fiscal Agency Agreement") has been entered into in relation to the Notes between The Republic, Deutsche Bank AG, London Branch as fiscal agent (the "Fiscal Agent") Deutsche Bank Luxembourg S.A. as the Luxembourg paying agent and Deutsche International Corporate Services (Ireland) Limited as the Irish paying agent (together with the Fiscal Agent, the "Paying Agents" or the "Agents").

In these Conditions, "Fiscal Agent" and "Paying Agent" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal Agency Agreement, and any reference to an "Agent" or "Agents" shall mean any or all (as applicable) of such persons.

Copies of the Fiscal Agency Agreement are available for inspection during usual business hours at the specified offices of each of the Agents. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons (the "Couponholders" and the "Coupons" respectively) are bound by, and are deemed to have notice of, the provisions of the Fiscal Agency Agreement.

References to "Conditions" are, unless the context otherwise requires, to the numbered paragraphs of these Conditions.

### 1. Form, Denomination and Title

The Notes are in bearer form in the denomination of Euro 2,000 with minimum denominations of Euro 1,000 thereafter, with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999.

### 2. Status

The Notes constitute direct, unconditional and (subject to Condition 3 (Negative Pledge)) unsecured obligations of The Republic. Subject to the provisions of Condition 3 (Negative Pledge), the Notes rank and will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured External Indebtedness (as defined in Condition 3 (Negative Pledge)) of The Republic.

### 3. Negative Pledge

The Republic will not, so long as any of the Notes remains outstanding, create or permit to exist:

- (A) any Lien (other than a Permitted Lien) for any purpose upon or with respect to any International Monetary Assets of The Republic; or
- (B) any Lien (other than a Permitted Lien) upon or with respect to:
  - (a) any other assets of The Republic to secure External Indebtedness of any Person; or

- (b) any Exportable Assets of any Government-Owned Enterprise to secure External Indebtedness of The Republic,

unless the Notes at the same time share *pari passu* and *pro rata* in such security.

"Permitted Lien" means:

- (A) any Lien on Foreign Currency (or deposits denominated in Foreign Currency) securing obligations with respect to a letter of credit in the course of ordinary commercial banking transactions (and expiring within one year thereafter) to finance the importation of goods or services into The Republic;
- (B) any Lien on Exportable Assets (but not official holdings of gold), documents of title relating thereto, insurance policies insuring against loss or damage with respect thereto and proceeds of the foregoing, securing External Indebtedness incurred to finance the business of producing or exporting Exportable Assets, provided that:
  - (a) the proceeds of the sale of such Exportable Assets are expected to be received within one year after such Exportable Assets or documents become subject to such Lien; and
  - (b) such External Indebtedness:
    - (i) is to be repaid primarily out of proceeds of sale of the Exportable Assets subject to such Lien; and
    - (ii) does not arise out of financing provided by the lender on condition that other External Indebtedness be repaid;
- (C) any Lien securing External Indebtedness incurred for the purpose of financing any acquisition of assets (other than International Monetary Assets), provided that the assets which are subject to such Lien are:
  - (a) tangible assets acquired in such acquisition (including, without limitation, documents evidencing title to such tangible assets);
  - (b) claims which arise from the use, failure to meet specifications, sale or loss of, or damage to such assets; or
  - (c) rent or charter hire payable by a lessee or charterer of such assets;
- (D) any Lien on or with respect to assets (other than International Monetary Assets) existing at the time of the acquisition thereof, provided that such Lien was not incurred in contemplation of such acquisition;
- (E) any Lien on or with respect to assets (other than International Monetary Assets) acquired (or deemed to be acquired) under a financial lease, or claims arising from the use, operation, failure to meet specifications, sale or loss of, or damage to, such assets, provided that:
  - (a) such Lien secures only rentals and other amounts payable under such lease; and
  - (b) such assets were not owned by The Republic for more than 120 days prior to becoming subject to such lease;
- (F) any Lien on any assets which arose pursuant to any order or attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

- (G) any Lien arising by operation of law (and not pursuant to any agreement) which has not been foreclosed or otherwise enforced against the assets to which it applies, including without limitation any right of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property held by financial institutions, provided that such Lien arises in the ordinary course of the activities of the owner of the assets subject thereto and not with a view to securing any External Indebtedness;
- (H) any Lien securing External Indebtedness incurred in connection with any Project Financing, provided that the assets to which such Lien applies:
  - (a) are not official holdings of gold; and
  - (b) are:
    - (i) assets which are the subject of such Project Financing; or
    - (ii) revenues or claims which arise from the use, operation, failure to meet specifications, exploitations, sale or loss of, or damage to, such assets;
- (I) Liens on assets (other than official holdings of gold) in existence on 15 February 2005 provided that such Liens remain confined to the assets affected thereby on 15 February 2005 and secure only those obligations so secured on 15 February 2005;
- (J) any Lien or Liens which otherwise would not be permissible hereunder and which secure(s) indebtedness in an aggregate amount not exceeding U.S.\$25,000,000 (or the equivalent thereof in other currencies).

For purposes of these Conditions:

- (a) "Exportable Assets" means goods which are sold or intended to be sold for a consideration consisting of or denominated in Foreign Currency and any right to receive Foreign Currency in connection with the sale thereof;
- (b) "External Indebtedness" of any Person means:
  - (i) each obligation, direct or contingent, of such Person to repay a loan, deposit, advance or similar extension of credit;
  - (ii) each obligation of such Person evidenced by a note, bond, debenture or similar written evidence of indebtedness; and
  - (iii) each Guarantee by such Person of an obligation constituting External Indebtedness of another Person;

if in each case such obligation is denominated in a Foreign Currency or payable at the option of the payee in a Foreign Currency;

provided that:

- (I) an obligation (or Guarantee thereof) which by its terms is payable only by a Turkish Person to another Turkish Person in The Republic is not External Indebtedness;
- (II) an obligation to the extent that it is owing only to an individual who is a Turkish citizen is not External Indebtedness; and
- (III) an obligation is deemed to be denominated in a Foreign Currency if the terms thereof or

of any applicable Governmental programme contemplate that payment thereof will be made to the holder thereof in such Foreign Currency by the obligor, The Republic or any other Turkish Person;

- (a) "Foreign Currency" means any currency other than the lawful currency of The Republic;
- (b) "Government-Owned Enterprise" means any corporation or other entity which constitutes under the laws of The Republic a judicial entity separate from The Republic and of which The Republic owns, directly or indirectly, more than 50 per cent. of the capital stock or other equity interest;
- (c) "Guarantee" includes a suretyship or any other arrangement whereby the respective party is directly or indirectly responsible for any External Indebtedness of another Person, including without limitation any obligation of such party to purchase goods or services or supply funds or take any other action for the purpose of providing for the payment or purchase of such External Indebtedness (in whole or in part);
- (d) "International Monetary Assets" means all official holdings of gold, Special Drawing Rights, Reserve Positions in the International Monetary Fund and Foreign Exchange which is owned or held by The Republic or any monetary authority of The Republic, all as defined by the International Monetary Fund;
- (e) "Lien" means any lien, mortgage, deed of trust, charge, pledge, hypothecation, security interest or other encumbrance;
- (f) "Person" means an individual, corporation, partnership, joint venture, trust, unincorporated organisation or any other juridical entity, including without limitation a Government or Governmental body or agency or instrumentality or any international organisation or agency;
- (g) "Project Financing" means any financing of the acquisition, construction or development of any asset in connection with a project if the Person or Persons providing such financing expressly agree to look to the asset financed and the revenues to be generated by the use, exploitation, operation of or loss of or damage to, such asset as a principal source of repayment for the moneys advanced and at the time of such financing it was reasonable to conclude that such project would generate sufficient income to repay substantially all of the principal of and interest on all External Indebtedness incurred in connection with such project; and
- (h) "Turkish Person" means The Republic and any Person who is a resident or national of The Republic or which has its principal place of business, seat or head office in The Republic or any Person incorporated or organised under the laws of The Republic.

#### **4. Interest**

Each Note bears interest from and including 16 February 2005 at the rate of 5.50 per cent. per annum, payable annually in arrear on 16 February in each year (each such date, an "Interest Payment Date"). The first such payment will amount to Euro 55 per Euro 1,000 Note and will be made on 16 February 2007. Interest will be paid subject to and in accordance with the provisions of Condition 7 (*Taxation*).

Each Note will cease to bear interest from the due date for redemption unless, after surrender of such Note, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at the rate specified above (as well after as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after notice has been given to the Noteholders that the Fiscal Agent has received all sums due in respect of the Notes up to such seventh day (except, in the case of payment to the Fiscal Agent, to the extent that there is any subsequent default in payment in accordance with these Conditions).

If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the number of days in the relevant period from and including the most recent Interest Payment Date (or, if none, 16 February 2005) to but excluding the relevant payment date divided by the number of days in the period from and including the most recent Interest Payment Date (or, if none, 16 February 2005) to but excluding the next scheduled Interest Payment Date.

## **5. Redemption, Purchase and Cancellation**

### *(a) Final redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 16 February 2017.

### *(b) Purchase and Cancellation*

The Republic and its affiliates may at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased will be cancelled. Any Notes so cancelled will not be reissued.

## **6. Payments**

### *(a) Principal*

Payments of principal shall be made only against presentation and surrender (or, in the case of part payment only, endorsement) of Notes at the specified office of any Paying Agent outside the United States by cheque drawn on, or by transfer to a euro account.

### *(b) Interest*

Payments of interest shall, subject to paragraph (f) below, be made only against presentation and surrender (or, in the case of part payment only, endorsement) of the appropriate Coupons at the specified office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

### *(c) Payments Subject to Fiscal Laws*

All payments of principal and interest in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7 (*Taxation*).

### *(d) Commissions*

No commissions or expenses shall be charged to the Noteholders in respect of any payments of principal or interest in respect of the Notes.

### *(e) Unmatured Coupons*

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (*Prescription*)) but not thereafter.

*(f) Payments on business days*

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next following business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph "business day" means, in respect of any place of presentation, any day on which banks are open for business in such place of presentation and which is a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) system is operating, provided that if The Republic determines, with the agreement of the Fiscal Agent, that the market practice in respect of internationally offered euro denominated securities is different from that specified in this paragraph, such paragraph shall be deemed to be amended so as to comply with such market practice and The Republic shall promptly notify the holders of Notes or (as the case may be) Coupons, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of such deemed amendment.

*(g) Agents*

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Fiscal Agency Agreement and The Republic reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that while the Notes are outstanding it will maintain (i) a Fiscal Agent, (ii) a Paying Agent having a specified office in a major European city (provided that there will be a Paying Agent in Ireland, so long as the Notes are listed on the Irish Stock Exchange) and (iii) if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing such conclusions or any law implementing or complying with, or introduced to conform to, such Directive. Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders in accordance with Condition 13 (Notices).

## **7. Taxation**

All payments of principal and interest in respect of the Notes and the Coupons by The Republic shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by The Republic or any political subdivision or any authority thereof or therein having power to tax (together "Taxes"), unless such withholding or deduction is required by law. In that event, The Republic shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

- (a) to a holder, or to a third party on behalf of a holder, if such holder is liable to such Taxes in respect of such Note or Coupon by reason of having some connection with The Republic other than the mere holding of such Note or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or
- (d) if such Note or Coupon is surrendered for payment more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "Relevant Date" means whichever is the later of (a) the date on which the payment in

question first becomes due and (b) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders. Any reference in these Conditions to principal or interest in respect of the Notes or Coupons shall be deemed to include any additional amounts which may be payable under this Condition 7 (Taxation).

## **8. Events of Default**

If any of the following events occurs:

### *(a) Non-payment*

The Republic fails to pay any amount of interest in respect of any of the Notes when due and such failure continues for a period of 30 days or fails to pay any amount of principal in respect of any Notes at any time; or

### *(b) Breach of other obligations*

The Republic defaults in performance or observance of or compliance with any of its other obligations set out in the Notes which default is not remedied within 30 days after notice of such default shall have been given to The Republic by any Noteholder; or

### *(c) Cross-acceleration*

Any other present or future External Indebtedness (as defined in Condition 3 (Negative Pledge)) of The Republic for or in respect of moneys borrowed or raised, in an amount in aggregate of not less than U.S.\$40,000,000 (or its equivalent in other currencies), becomes due and payable prior to its stated maturity otherwise than at the option of The Republic or any amount of such External Indebtedness in an aggregate amount of not less than U.S.\$25,000,000 (or its equivalent in other currencies) is not paid when due or, as the case may be, within any applicable grace period; or

### *(d) Moratorium*

A moratorium on the payment of principal of, or interest on, the External Indebtedness of The Republic shall be declared by The Republic; or

### *(e) Unlawfulness*

It is or will become unlawful for The Republic to perform or comply with any of its obligations under or in respect of the Notes or the Fiscal Agency Agreement; or

### *(f) IMF*

The Republic ceases to be a member of the International Monetary Fund.

then any Note may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount, plus accrued interest, if any. The Republic shall, on the reasonable written request of the Fiscal Agent, confirm whether it is in compliance with the provisions of this Condition 8 (Events of Default) and Condition 3 (Negative Pledge).

## **9. Prescription**

Claims against The Republic in respect of principal and interest shall become void unless made within a period of ten years, in the case of principal, and five years, in the case of interest, from the appropriate Relevant Date as defined in Condition 7 (Taxation).

## **10. Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as The Republic may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## **11. Meetings of Noteholders; Modification and Waiver**

### *(a) Meetings of Noteholders*

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than one quarter of the principal amount of the Notes, for the time being outstanding or at any adjourned meeting two or more persons being or representing Noteholders whatever the aggregate principal amount of the Notes for the time being outstanding so held or represented, except that at any meeting the business of which includes consideration of proposals, inter alia, (i) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (ii) to change the currency in which amounts due in respect of the Notes are payable, or (iii) to change the quorum required at any meeting or the majority required to pass an Extraordinary Resolution, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than three-quarters, or at any adjourned such meeting not less than one-quarter, of the principal amount of the outstanding Notes. An Extraordinary Resolution duly passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

### *(b) Modification and waiver*

The parties to the Fiscal Agency Agreement may agree, without the consent of the Noteholders, to any modification of any provision of the Fiscal Agency Agreement or the Notes which is of a formal, minor or technical nature or is made to correct a manifest error.

## **12. Further Issues**

The Republic shall be at liberty from time to time, without the consent of the Noteholders, to create and issue further notes ranking equally in all respects (or in all respects save for the date for and amount of the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes.

## **13. Notices**

Notices to the Noteholders shall be valid if published in a daily newspaper published in Luxembourg (which is expected to be the *d'Wort*) and a daily newspaper published in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

A copy of all notices provided pursuant to this Condition 13 (Notices) shall also be given to Euroclear Bank N.V./S.A. and to Clearstream Banking, société anonyme, Luxembourg.

#### **14. Currency Indemnity**

The euro is the sole currency of account and payment for all sums payable by The Republic under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than the euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder in respect of any sum expressed to be due to it from The Republic shall only constitute a discharge to The Republic to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that euro amount is less than the euro amount expressed to be due to the recipient under any Note, The Republic shall indemnify such recipient against any loss sustained by it as a result. In any event, The Republic shall indemnify the recipient against the cost of making any such purchases. These indemnities constitute a separate and independent obligation from The Republic's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any judgment or order.

#### **15. Governing Law and Jurisdiction**

##### *(a) Governing law*

The Notes and the Fiscal Agency Agreement shall be governed by and construed in accordance with the laws of England.

##### *(b) Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("Proceedings") may be brought in such courts. The Republic irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

##### *(c) Waiver of Immunity*

The Republic irrevocably agrees that, should any Proceedings be taken anywhere (whether for an injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from those Proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of its assets or from execution of judgment shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Republic irrevocably agrees that it and its assets are, and shall be, subject to such Proceedings, attachment or execution in respect of its obligations under the Notes, provided that it is understood that The Republic is unable under the laws of The Republic to waive immunity from attachment in relation to its assets (i.e. properties) located in The Republic and also to its properties outside The Republic which are used in the exercise of sovereign authority.

##### *(d) Consent to Proceedings*

The Republic irrevocably and generally consents in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings.

*(e) Process Agent*

The Republic irrevocably appoints The Economic Counsellor of The Republic of Turkey presently located at 43 Belgrave Square, London SW1 8PA as its authorised agent for the service of process in England. Nothing contained herein shall affect the right to serve process in any other manner permitted by law.

*(f) Consent to enforcement etc.*

Without limiting the generality of any of the foregoing, The Republic agrees, without prejudice to the enforcement of a judgment obtained in London according to the provisions of Article 38 of the International Private and Procedure Law of The Republic (Law No. 2675), that in the event that The Republic is sued in a court in The Republic of Turkey in connection with the Notes, such judgment shall constitute conclusive evidence of the existence and amount of the claim against The Republic pursuant to the provisions of the second sentence of Article 287 of the Civil Procedure Code of The Republic and Article 42 of the International Private and Procedure Law of The Republic.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note that will be deposited on or around the Closing Date with Deutsche Bank AG, London Branch as common depository for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("Definitive Notes") in the denominations of €2,000 and €1,000 each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

The Permanent Global Note will also become exchangeable, in whole but not in part only and at the option of the Issuer, for Definitive Notes if, by reason of any change in the laws of Turkey, the Issuer is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 19 October 2006 (the "Deed of Covenant") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified

Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

*Notices:* Notwithstanding Condition 13 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 13 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; *provided, however, that*, so long as the Notes are listed on the Irish Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Ireland (which is expected to be the *Financial Times* ).

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes, expected to amount to Euro 502,293,904.11 (including accrued interest on the Notes from 16 February 2006), will be used for the general funding purposes of The Republic.

## RECENT DEVELOPMENTS

### GENERAL

On October 9, 2006 an IMF mission arrived in The Republic and started the program review discussions under a stand-by arrangement for 2005-2008 (the "2005-2008 Stand-By-Arrangement"), which was implemented to support The Republic's economic and financial program through May 2008. The 2005-2008 Stand-By-Arrangement provides for international lending in the amount of SDR<sup>1</sup> 6.66 billion (approximately \$10 billion as of May 11, 2005).

On January 23, 2006 Standard & Poor's outlook for its BB- rating for The Republic was revised from stable to positive. On June 27, 2006, Standard and Poor's revised The Republic's outlook for its BB- rating from positive to stable. Moody's outlook for its B1 rating for The Republic was upgraded from negative to stable on October 21, 2003 and from stable to positive on February 11, 2005. On December 14, 2005, Moody's again upgraded The Republic's rating from B1 (positive outlook) to Ba3 (stable outlook).

On January 31, 2004, the Law on the Currency Unit of The Republic (Law No. 5083) was published in the Official Gazette (No.25363). In accordance with Law No. 5083 (No. 25363), a new currency, known as New Turkish Lira or YTL, was introduced on January 1, 2005. The conversion rate of the Turkish Lira to the New Turkish Lira is: TL1,000,000 = YTL1. The subunit of the New Turkish Lira is Yeni Kurus or Ykr; 1 New Turkish Lira is equal to 100 Kurus. Turkish Lira and New Turkish Lira banknotes and coins have been in physical circulation since January 2005. However, on January 1, 2006, the old Turkish Lira banknotes were withdrawn from circulation. The Central Bank will convert old Turkish Lira to New Turkish Lira for a period of ten years. The Council of Ministers will determine a future date when the word "new" will be eliminated from the name "New Turkish Lira" and the currency of The Republic will again be called Turkish Lira. The Central Bank has been implementing a floating exchange rate regime since February 2001. Please see "Key Economic Indicators," below, for recent exchange rates.

A new Municipalities Law (Law No. 5393) was approved by the Assembly on July 3, 2005, and the law was published in the Official Gazette on July 13, 2005 (No. 25874). The Municipalities Law is intended to reorganize the structure, duties and responsibilities of municipalities.

On September 26, 2004, the Assembly passed the new Turkish Penal Code which is intended to bring the Turkish penal code in line with EU standards. On October 12, 2004, the new Penal Code (Law No. 5237) was published in the Official Gazette, and, on December 17, 2004, the new Code of Penal Procedure (Law No. 5271) was published in the Official Gazette. The new Penal Code has been in effect since June 1, 2005. On June 29, 2005, the Turkish Penal Code was amended by the Assembly with the Law No. 5377. Such amendment has been published in the Official Gazette dated July 8, 2005 (No. 25869).

On December 1, 2004, The Republic announced its Pre-Accession Economic Program for the 2005- 2007 period. The goals of the program are, among other things, to sustain The Republic's current growth performance, maintain The Republic's single digit inflation and further reduce interest rates, further decrease the ratio of net public debt to GNP and bring the budget into balance by the end of the program.

On December 29, 2004, a Government decree regarding the reduction of value added taxes ("VAT") was published in the Official Gazette (No. 25685). In accordance with the decree, the VAT collected from food, education and health products was reduced to 8% from 18% beginning on January 1, 2005. Furthermore, on March 8, 2006, another Government decree regarding the reduction of the VAT collected from textile products to 8% from 18% was published in the Official Gazette (No. 26102), which became effective on March 9, 2006.

On December 30, 2004, the Assembly passed a new law (Law No. 5281) regarding the reduction of income taxes and the simplification of taxation practices on financial instruments. In accordance with Law

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<sup>1</sup> The Special Drawing Right, or SDR, serves as the unit of account of the IMF. The value of the SDR in terms of U.S. dollars was SDR 1 = \$1.47708 on October 10, 2006.

No. 5281, the upper limit of income taxes was reduced by 5% to 40% beginning in 2005, the tax exemption on financial instruments was eliminated and a new tax on financial market instruments was introduced. On December 31, 2004, Law No. 5281 was published in the Official Gazette. However, on June 22, 2006, the Government announced its intention to introduce a new tax exemption on financial instruments for non-resident investors. The new law (Law No. 5527) was approved by the Assembly on June 27, 2006 and published in the Official Gazette on July 7, 2006 (No. 26221). With the Law No. 5527, the withholding tax on earnings derived from financial instruments by non-residents will be reduced to zero and non-residents will not be responsible for any declaration. The withholding tax for domestic investors will be reduced to 10% from 15% for earnings derived from domestic government debt securities, and private sector debt securities and for capital gains derived from the purchase and sale of equities. There is no change on the 15% withholding tax implementation on deposits and repurchase transactions. However, on August 2, 2006, it was announced that Republican People's Party ("CHP") applied to the Constitutional Court for the cancellation of Law No. 5527. On March 30, 2006, the Assembly passed another law (Law No. 5479) regarding the reduction of income taxes and the simplification of income taxation practices. With Law No. 5479, the upper limit of income taxes was reduced by 5% to 35%, the number of income tax brackets was reduced to 4 from 5 and the tax exemptions of various investments were eliminated. Law No. 5479 was published in the Official Gazette on April 8, 2006 (No. 26133), and the income tax reductions and the elimination of the tax exemptions were effective as of January 1, 2006. On June 13, 2006, the Assembly approved the new Corporate Tax Law (Law No. 5520). In accordance with the Law No. 5520, the corporate income tax rate was reduced to 20% from 30% effective from January 1, 2006. Law No. 5520 was published in the Official Gazette on June 21, 2006 (No. 26205).

Until 2005, the Consumer Price Index ("CPI") and Wholesale Price Index ("WPI") had been calculated based on the relative increase or decrease in prices since 1997. In January 2005, the State Institute of Statistics introduced the Producer Price Index ("PPI") to replace WPI, revised the components of CPI and changed the base year to 2003. While WPI had provided a public/private sector breakdown, PPI is to be calculated for overall sectors, without a breakdown for public/private sector. In addition, new indicators for core inflation, which was previously defined as inflation in the private manufacturing industry, were introduced by the State Institute of Statistics. The new indicators are variations of CPI that exclude certain components (such as CPI excluding seasonal products, CPI excluding raw food products and CPI excluding energy).

On April 18, 2006, Durmus Yilmaz became the new governor of The Republic's Central Bank. Mr. Yilmaz was educated at the City University of London and has been with the Central Bank since 1980. He was appointed after the President of The Republic vetoed the Turkish Government's first choice, Adnan Buyukdeniz, the chief executive of AlBaraka Turk, an interest-free financial institution.

On May 5, 2005 the Assembly adopted Law No. 5345 establishing the Revenue Administration under the Ministry of Finance as a semi-autonomous entity, structured along functional lines and with the local tax offices directly under its control. Responsibility for tax policy is retained by the Ministry of Finance, allowing the Revenue Administration to focus on tax administration. On May 16, 2005, Law No. 5345 was published in the Official Gazette (No. 25817).

On June 1, 2005, the Law Regarding Amendments to the Execution and Bankruptcy Act (Law No. 5358) was published in the Official Gazette (No. 25832).

The Assembly approved the Social Security Institutions Law (Law No. 5487) on April 13, 2006. The Social Security Institutions Law establishes, organizes and defines the duties of a new Social Security Institution that replaces the former system that split duties among three separate institutions. President Sezer partially vetoed Law No. 5487 and it was sent back to the Assembly for revision. On May 4, 2006, the Social Security Institutions Law was revised and approved by a parliamentary commission and sent to the Assembly for discussion. On May 16, 2006, the Assembly approved the revised Social Security Institution Law (Law No. 5502) and sent it back to President Sezer for approval. On May 20, 2006, Law No. 5502 was published in the Official Gazette (No. 26173).

The Assembly approved The Social Insurance and General Health Insurance Law (Law No. 5489) on April 19, 2006. The Social Insurance and General Health Insurance Law is a pension reform law that brings

gradual parametric changes to the pension system and also introduces universal health insurance. On May 10, 2006, President Sezer vetoed Law No. 5489. The Assembly approved the new Social Insurance and General Health Insurance Law (Law No. 5510) on May 31, 2006. Law No. 5510 was approved by President Sezer and the law was published in the Official Gazette on June 16, 2006 (No. 26200). However, President Sezer announced that he will apply to the Constitutional Court for the cancellation of some of the articles of Law No. 5510.

Since the European Council in December 2004 and the start of the accession negotiations in October 2005 The Republic has realized further reforms and continued harmonization efforts in the fields of gender equality, public administration and the enforcement of human rights. To this end, the 9th reform package was introduced on April 12, 2006. The draft legislation and international conventions included in the package will enable significant progress in the fields of transparency, ethics and civil-military relations. Within this framework, the UN Convention on the Fight Against Corruption as well as the Protocol No. 14 to the Convention for the Protection of Human Rights and Fundamental Freedoms, and the Law Amending the Law on the Establishment and Legal Procedures of Military Courts have already been adopted. The 9th reform package also contains some new administrative measures in an aim to further advance the reform process. On September 19, 2006, the Parliament reconvened to discuss the remaining measures of the 9th reform package.

The Law on Establishment of Investment Support and Promotion Agency of Turkey (Law No. 5523) was published in the Official Gazette on July 4, 2006 (No. 26218). Under the office of the Prime Minister, the Agency will have administrative and financial autonomy to sustain operational flexibility and provide information and guidance for investors throughout every step of the investment process. The law on establishment of development agencies regulating the formation of the Investment Support Offices which will assist investors in obtaining necessary permissions and provide coordination in legal procedures, has entered into force in February 2006.

The Draft Law regarding the Housing Finance System (the "Draft Housing Finance Law") prepared by the Capital Markets Board of The Republic is under consideration. The Draft Housing Finance Law aims to improve infrastructure in order to promote primary mortgage and housing finance market and establish a secondary mortgage market to provide alternative funding mechanisms to the primary lenders. By the Draft Housing Finance Law, Execution and Bankruptcy Act (Law No. 2004), Capital Markets Law (Law No. 2499), Consumer Protection Law (Law No. 4077), Law on Public Finance and Debt Management (Law No. 4749) and various tax laws are expected to be amended.

## **POLITICAL CONDITIONS**

The following table sets forth the composition of the Assembly by total number of seats as of October 13, 2006:

<b><u>Political Party</u></b>	<b><u>Number of Seats</u></b>
Justice and Development Party (AKP)	356
Republican People's Party (CHP)	154
Motherland Party (ANAP)	21
Social Democrat People's Party (SHP)	1
True Path Party (DYP)	4
People's Ascent Party (HYP)	1
Young Party (GP)	1
Independents (no party affiliation)	8

## **KEY ECONOMIC INDICATORS**

- GNP grew by an estimated 7.5%, 4.7%, 8.0% and 10.2% in the first, second, third and fourth quarters of 2005, respectively, compared to the corresponding periods in 2004. In 2005, GNP totaled YTL486,4 billion, which represents a real increase of 7.6% as compared to 2004. In the first quarter of 2006, GNP grew by an estimated 6.4%, compared to the same period of 2005 and in the second quarter of 2006, GNP grew by an estimated 8.5%, compared to the same period of 2005. The GNP grew by an estimated 7.5% in the first half of 2006, compared to the same period in 2005.

- For the month of September 2006, CPI increased by 1.29% and PPI decreased by 0.23%.
- The Republic's PPI and CPI for the December 2005 – September 2006 period was 11.54% and 6.65%, respectively. The official CPI year-end target for 2006 is 5%. Uncertainty about oil prices is one of the leading risks to attainability of the inflation target in 2006. In the first six months of the year, oil prices continued to rise and have reached quite high levels. The negative impact of oil prices on annual inflation became one of the factors that caused inflation to increase in the first quarter of 2006. The unfavorable impact of the rise in oil prices has been a relative price change and has thus far not led to a change in price setting behavior in sectors that do not use petroleum products as a direct input. In other words, the secondary effects have thus far remained limited. The Central Bank would expect to respond with adjustments in monetary policy if the secondary effects become more evident.
- On October 9, 2006, the Central Bank foreign exchange buying rate for U.S. dollars was YTL1.4952 per U.S. dollar, compared to an exchange buying rate of YTL1.3368 per U.S. dollar on October 10, 2005.
- On October 2, 2006, the Government offered an interest rate of 19.69% for 91-day Treasury Bill, compared to an interest rate of 14.52% for 91-day Treasury Bill on October 17, 2005.
- The industrial production index rose by 4.8% in August 2006, compared to an increase of 6.8% in August 2005. The industrial production index rose by approximately 3.5% in the first quarter of 2006 and rose by approximately 9.4% in the second quarter of 2006.
- Beginning in January 2005, the State Institute of Statistics has published a household labor force figure each month based on the average of three months (i.e., the January 2006 figure covers the December 2005 – February 2006 period). The unemployment rate was 11.8% for January 2006, 11.9% for February 2006, 10.9% for March 2006, 9.9% for April 2006, 8.8% for May 2006 and 8.8% for June 2006. The total unemployment was estimated to be 2,799,000 in January 2006, 2,796,000 in February 2006, 2,611,000 in March 2006, 2,436,000 in April 2006, 2,215,000 in May 2006 and 2,245,000 in June 2006.
- Negotiations between the Government and the public sector workers' union regarding wage increases for public sector workers were completed on July 5, 2005. It was announced that the wages of public sector workers would be increased by 10% for the year 2006 and by 3% for each six-month period in 2007. On August 30, 2005, it was announced that the salaries of civil servants would be increased by 2.5% for each six-month period in 2006. On December 21, 2005, it was announced that the minimum wage would be increased by 8.65% in 2006. On September 25, 2006, it was announced that the salaries of low-income civil servants would be increased by 4% for each six-month period in 2007 and the salaries of the remaining civil servants would be increased by 3% for each six-month period in 2007. It was also announced that the salaries of the civil servants will be compensated for the difference between the actual inflation rate and the salary increase of year 2006 and 2007 respectively.
- On December 5, 2005, the Central Bank announced its framework for inflation targeting and the monetary policy details for the year 2006. It announced that the inflation target would be a 'point target' based on CPI with a band of 2% in either direction. The point target rates are 5% for the year 2006 and 4% for the years 2007 and 2008, respectively. The Monetary Policy Committee ("MPC") will meet during the third or fourth week of each month and the interest rate decision will be made publicly available the same day as the MPC meeting. The Central Bank also began publishing a quarterly inflation report in the last week of January 2006 and a monthly price developments report in the first week of July 2006.
- In its regular meeting, held on September 26, 2006, the MPC decided to keep short-term interest rates (policy rates) unchanged at 17.50% at the CBRT Interbank Money Market and the Istanbul Stock Exchange Repo-Reverse Repo Market. As of September 26, 2006, CBRT overnight

borrowing interest rate was 17.50%, and the CBRT overnight lending interest rate was 22.50%. In its previous meeting, held on August 24, 2006, MPC decided to keep policy interest rates unchanged at 17.50%.

## **TOURISM**

- From January to August 2006, net tourism revenues (according to the balance of payments presentation) decreased by approximately 1.4% to approximately \$9,758 million from approximately \$9,899 million during the same period in 2005.
- From January to August 2006, the number of foreign visitors visiting The Republic decreased by approximately 4.9% to approximately 13,891,597 foreign visitors from approximately 14,599,968 foreign visitors during the same period in 2005. While the specific causes of the reduction in number of foreign visitors are not known, The Republic's tourism sector may have been negatively affected by the bird flu outbreak, as well as conflicts in neighboring countries. However, the magnitude of these effects, if any, is difficult to determine and is expected to be transitory. The Republic does not believe that any conflicts with elements of the Kurdish population have had an effect on tourism.

## **FOREIGN TRADE AND BALANCE OF PAYMENTS**

Between January and August 2006, the trade deficit increased by approximately 29.4% to approximately \$28.0 billion, as compared to approximately \$21.6 billion in the same period of 2005. The reason behind the increase in the trade deficit between January and August 2006 was the 19.4% increase in total goods imported (to approximately \$84.2 billion), as compared to approximately \$70.5 billion during the same period of 2005. The increase in imports was primarily driven by the demand for capital goods (increased by approximately 11.0% over the same period of 2005), intermediate goods (increased by approximately 19.4% over 2005) and consumption goods (increased by approximately 25.8% over 2005). During the period of January – August 2006, the current account deficit increased by approximately 44.6% over the same period in 2005, from approximately \$15.5 billion to approximately \$22.4 billion.

As of September 15, 2006, total gross international reserves were approximately \$88.1 billion (compared to \$75.1 billion as of December 30, 2005), commercial bank and participation bank reserves were approximately \$29.0 billion (compared to \$22.6 billion as of December 30, 2005) and gold reserves were approximately \$2.3 billion (compared to \$1.9 billion as of December 30, 2005). As of September 29, 2006, Central Bank reserves were approximately \$58.5 billion, compared to approximately \$50.5 billion as of December 30, 2005.

As of October 6, 2006, the Central Bank held approximately YTL766 million in public sector deposits.

## **PUBLIC FINANCE AND BUDGET**

- From January to August 2006, central government budget expenditures were approximately YTL115,048 million and central government budget revenues were approximately YTL115,522 million, compared to a central government budget expenditure of approximately YTL95,506 million and a consolidated budget revenue of YTL85,253 million during the same period in 2005.
- From January to August 2006, the central government budget surplus was approximately YTL474 million, compared to a consolidated budget deficit of YTL6,755 million during the same period in 2005.
- From January to August 2006, the central government budget primary surplus reached approximately YTL34,609 million, compared to a consolidated budget primary surplus of YTL25,605 million during the same period in 2005.

- On October 17, 2005, the Council of Ministers submitted the draft of the first multi-annual budget for the 2006-2008 period to the Assembly. The draft budget includes 5% targets for the CPI and PPI rates and a 6.5% target for the primary surplus/GNP ratio for the public sector at the end of 2006. The Assembly passed the 2006 budget on December 27, 2005, and the Budget Law (Law No. 5437) was published in the Official Gazette on December 31, 2005.
- On January 6, 2006, The Republic announced its 2006 financing program. According to the 2006 financing program, The Republic expects to repay a total of approximately YTL168,400 million of debt in 2006, of which approximately YTL144,500 million constitutes domestic debt and approximately YTL23,800 million constitutes external debt service. The total borrowing target for The Republic in 2006 is approximately YTL128,100 million, of which approximately YTL111,400 million would consist of domestic borrowing and approximately YTL16,700 million would consist of external borrowing. Of the YTL16,700 million of external borrowing expected in 2006, YTL7,500 million is expected to be raised through bond issuances, YTL6,800 million from international financial institutions and YTL2,500 million through project financing. Other sources of funds in 2006 are expected to consist of primary surplus (which is targeted to yield YTL30,200 million on cash basis), privatization revenues (which is targeted to yield YTL7,000 million) and collections from guaranteed receivables (which is targeted to yield YTL3,100 million).

## **PRIVATIZATION**

The Government's plans for privatization include, among others, Turk Telekom, Petkim (a petrochemicals company), Tupras (a petroleum refining company), Turkish Airlines, Tekel (tobacco unit), certain sugar factories, the Istanbul Stock Exchange, the Istanbul Gold Exchange and the National Lottery Organization, as well as the transfer of operational rights on certain highways, ports and Bosphorus bridges and the privatization of Halk Bank and Ziraat Bank and certain hotels and energy generation and distribution companies. Although the Government's target for privatization revenues in 2003 was \$4 billion, revenues from privatizations for the year 2003 were approximately \$171.6 million. Cash transfers to the Treasury from the Privatization Administration (including transfers from privatized companies) were approximately YTL3,551 million in 2005 and approximately YTL8,490.1 million as of end September 2006.

The advisor for the privatization of Turk Telecom was selected in August 2002. Two separate decrees for the privatization of Turk Telecom were approved by the Council of Ministers on May 9, 2003 and were submitted to President Sezer for his review. On November 13, 2003, the Council of Ministers passed a decree relating to the sale of Turk Telecom, which stated that a minimum of 51% of the shares of Turk Telecom will be offered as a block sale of shares, while the remaining shares could be privatized through various other privatization methods including a public offering. On June 16, 2004, the Assembly enacted a law permitting the sale of a majority of the shares of Turk Telecom to be sold to foreign investors. The formal tender process for the block sale of 55% of Turk Telecom commenced with the tender announcement on November 25, 2004. On July 1, 2005, Oger Telecoms Joint Venture Group submitted the highest bid for 55% of the shares of Turk Telecom in the amount of \$6.55 billion. The results of the tender were approved by the Council of Ministers and were published in the Official Gazette on August 2, 2005 (No. 25804). The Turk Telecom privatization was completed when the share transfer agreement was signed on November 14, 2005.

An announcement for the block sale of 65.76% of the public shares of Tupras was made on June 7, 2003. Final negotiations were held in January 2004. The tender was won by Efremov Kautschuk GmbH, which submitted the highest bid, for approximately \$1.3 billion. On June 3, 2004, the Ankara Administrative Court cancelled the decision of the tender commission to privatize 65.76% of public shares in Tupras and, on November 26, 2004, the Council of State approved the Ankara Administrative Court ruling. On March 4, 2005, the Privatization Administration completed the block sale of 14.76% of the shares of Tupras to foreign investors. However, on May 23, 2006, an Administrative Court suspended the block sale of 14.76% shares of Tupras on the Istanbul Stock Exchange. On April 29, 2005, the Privatization Administration announced a tender for the block sale of an additional 51% of Tupras shares. On September 12, 2005, it was announced that a consortium led by Turkish conglomerate Koç Holding made the highest bid, which totaled \$4.14 billion. The Koç Holding bid was approved by the Privatization High Council on November 7, 2005 and the

share transfer agreement was signed on January 26, 2006. However, on February 2, 2006, the Council of State suspended the sale of Tupras to Koç Holding, and on May 8, 2006, it was announced that the Council of State rejected the demand to cancel the sale of Tupras.

The Privatization Administration announced the tender for the privatization of the tobacco unit of Tekel on December 13, 2004. The original bidding deadline for the tender was postponed from February 18, 2005 to March 4, 2005 and, subsequently, to April 8, 2005. On April 8, 2005, the privatization of the tobacco unit of Tekel was cancelled because no offer was received.

On May 18, 2005, the Privatization Administration made a tender offer announcement for the sale of two of Tekel's buildings (twin towers) in Ankara. The Union of Chambers and Commodity Exchanges in Turkey (TOBB) won the tender in July 2005 by submitting the highest bid in the amount of \$100 million. The sale of Tekel's twin towers was completed on January 31, 2006.

The Privatization Administration announced a tender for the privatization of motor vehicles inspection stations on September 23, 2004. The highest bid in the amount of \$613.5 million was submitted by AKFEN-Dogus-Tuvsud OGG. The bid was approved by the Privatization High Council, but the Council of State halted implementation of the Competition Board's verdict on November 9, 2005.

On May 24, 2005, the Privatization Administration announced the tender for the block sale of 46.12% of the shares of ERDEMIR (Eregli Demir ve Celik Fabrikalari A.S), The Republic's biggest steel company. On October 4, 2005, it was announced that the tender was won by OYAK, a pension fund for the Turkish military, which submitted the highest bid in the amount of \$2.77 billion. On November 24, 2005, the Competition Board approved the block sale of 46.12% of the shares of ERDEMIR to OYAK and the share transfer agreement was signed on February 27, 2006. On May 10, 2006, however, the Council of State suspended the Competition Board's approval of the ERDEMIR privatization and on July 18, 2006, it was announced that Council of State suspended the implementation of the Privatization High Council's decision on ERDEMIR privatization. On September 20, 2006, it was announced that the Competition Board reapproved the sale of ERDEMIR to OYAK.

Between November 9 and 11, 2005, 25.18% of the shares of Turkiye Vakiflar Bankasi T.A.O. ("Vakifbank") were sold (with the greenshoe option fully exercised) through an initial public offering, which raised YTL1.74 billion (approximately \$1.27 billion). The publicly-held shares of Vakifbank began to trade on the Istanbul Stock Exchange on November 18, 2005.

On February 2, 2006, the Privatization Administration held an auction for the block sale of 56.67% of the shares of insurance company Basak Sigorta and 41.00% of the shares of pension company Basak Emeklilik. The highest bid in the amount of \$268 million was submitted by the French insurer Groupama. The Groupama bid was approved by the Privatization High Council on April 19, 2006. The Basak Sigorta / Emeklilik privatization was completed when the share transfer agreement was signed on May 16, 2006.

On April 5, 2006, the Privatization Administration announced that the consortium of Goldman Sachs, CA-IB and Is Yatirim was selected as the consultant to the Halkbank privatization. On August 15, 2006, Privatization High Council's ("PHC") decision on Halkbank privatization was published in the Official Gazette. According to the PHC's decision, the public shares of Halkbank will be privatized through "block sale" and the privatization process is envisaged to be finalized by May 25, 2008.

On April 19, 2006, the Privatization Administration announced that the official process for the public offering of the 25% (a total of 28.75% shares, if the greenshoe option is fully exercised) state-owned shares of Turk Hava Yollari ("Turkish Airlines") had been started. The subscription process of the public offering was finalized between May 16 and May 18, 2006. The public offering was finalized on May 24, 2006 and a total of approximately \$207.8 million was raised with the sale of 28.75% of state owned shares of Turkish Airlines (with greenshoe option fully exercised). The new shares began trading on the Istanbul Stock Exchange on May 25, 2006. After the public offering in May 2006, the shares of Turkish Airlines held by the Privatization Administration fell to 49%.

On August 31, 2006, Privatization Administration announced the tender for the block sale of 100% shares of the three electricity distribution companies, namely, Baskent Elektrik Dagitim A.S., Sakarya Elektrik Dagitim A.S. and Istanbul Anadolu Yakasi Elektrik Dagitim A.S., each operating in three different regions. The bidding deadline for the privatization was announced as December 15, 2006. Furthermore, the privatization processes of the remaining 17 electricity distribution regions are still continuing.

Other significant privatizations completed in 2006 include the asset sales of TEKEL Kayacik (\$42.2 million), Kaldirim (\$40.7 million), Yavsan Salt Mines (\$37.3 million), Buyuk Efes Hotel (\$121.5 million), Buyuk Ankara Hotel (\$36.8 million), Tarabya Hotel (\$145.3 million), Emek Office Block (\$55.5 million) and the sale of KBI-Murgul Enterprise together with the transfer of operational rights of a hydroelectric power plant (\$37.6 million).

Other significant privatizations at the approval or contract stage include the transfer of operational rights of the Mersin (\$755 million) and Iskenderun (\$80 million) ports.

The significant institutions which are currently in the process of tender, sale or transfer are Bor Sugar Factory, Ereğli Sugar Factory, Ilgin Sugar Factory and Kayseri Sugar Factory of Sumer Holding A.S. and Izmir Port owned by Republic of the Turkey State Railways (TCDD).

Several privatizations that are currently in the approval stage are being challenged in Turkish courts. Such legal challenges can cause delays in the privatization process and may, on occasion, as in the case of the sale of 65.76% of the shares in Tupras to Efremov Kautschuk GmbH in 2003-2004, lead to the cancellation of the previous privatization decisions.

## **BANKING SYSTEM**

As of September 27, 2006, the Savings and Deposit Insurance Fund ("SDIF"), had taken over 22 private banks since 1997.

In order to settle and reschedule the debts of Cukurova Group and to accelerate the sales process for Yapi Kredi Bank, three separate supplementary agreements were executed: one between Yapi Kredi Bank and the Cukurova Group dated July 20, 2004; one between SDIF and the Cukurova Group dated August 4, 2004; and one between the Banking Regulation and Supervision Agency ("BRSA") and the Cukurova Group dated August 5, 2004. While the agreements signed by each of the SDIF and Yapi Kredi Bank with Cukurova Group consist of a repayment protocol concerning the restructuring of the debt, the agreement between BRSA and Cukurova Group aims to solve the ownership problem of the Yapi Kredi Bank and accelerate the sale process. Cukurova Group failed to pay the first required installment to Yapi Kredi under the supplementary agreement dated July 20, 2004. As a result, the supplementary agreement was annulled and the former agreement between the parties, dated December 31, 2002, was reinstated. The agreements between Cukurova Group and each of the BRSA and SDIF, which were signed in August 2004, remain in effect. In January 2005, it was announced that Cukurova Group and Koç Finansal Hizmetleri A.S. ("KFH") signed a protocol to begin talks regarding a potential sale of the shares of Yapi Kredi Bank. UniCredito Italiano S.p.A. acquired a 50% stake in KFH in 2002. On May 8, 2005, Cukurova Group and KFH entered into a definitive share purchase agreement for the purchase of 57.42% of the shares of Yapi Kredi Bank held by Cukurova Group and the SDIF. On August 11, 2005, it was announced that BRSA approved the transfer of Yapi Kredi Bank shares to KocBank and, on September 28, 2005, it was announced that KocBank completed the acquisition of 57.4% of shares of Yapi Kredi Bank. The remaining debt of the Cukurova Group to Yapi Kredi Bank is expected to be repaid over the next 10 years. On November 25, 2005, it was announced that Cukurova Group made an early repayment of approximately \$947.2 million of its outstanding debt to SDIF.

The SDIF is continuing its efforts to recover claims and sell off assets inherited from banks taken over by the SDIF. On September 28, 2006, it was announced that SDIF had agreed with Yasar Group (former owner of the Yasarbank) on early repayment of its outstanding debt to SDIF. According to the agreement, Yasar Group paid approximately \$48.4 million and €71.9 million in cash to SDIF on September 28, 2006. As of October 10, 2006, the SDIF had already signed protocols with 14 former owners of failed banks (including Yasar Group) regarding the settlement of their debts to the SDIF. The SDIF has begun selling non-related party loans of failed banks through loan auctions and is also taking steps to dispose of its holdings of shares in

companies and other assets taken over by the SDIF, including the media assets, the cement factories and a mobile-phone operator, Telsim, previously owned by the Uzan Group, the former owner of Imar Bank. The tender for Star TV was held on September 26, 2005 and the tender was won by Isil Televizyon Yayinciligi (owned by Dogan Yayin Holding) which submitted the highest bid of \$306.5 million. The tenders for nine cement factories were held in October 2005 and the highest bids totaled \$1.07 billion. On December 21, 2005, the Competition Board approved the sale of eight of the nine cement factories for approximately \$945 million. The tender for the ninth plant (Gaziantep cement plant) was rejected due to competition concerns, though it was later announced that a new tender is planned for the Gaziantep cement plant. The tender for Gaziantep cement plant was held on April 11, 2006 and Limak Kurtalan Cimanto San. won the tender with the highest bid in the amount of \$93.25 million. On May 4, 2006, the Competition Board approved the sale of Gaziantep cement plant. The tender for Telsim held on December 13, 2005 was won by Vodafone, which submitted the highest bid of \$4.55 billion.

Since December 2004, when The Republic received a date for the commencement of accession talks with the EU, foreign investor interest in the Turkish banking sector has strengthened. A number of foreign financial entities have bought or agreed to buy equity stakes in domestic banks, including (but not limited to): Fortis Bank (acquired 93.3% stake in Disbank), BNP Paribas (bought 50% stake of TEB Mali Yatirinlar A.S.), Dexia (agreed to buy 75.0% stake in Denizbank), General Electric Consumer Finance (bought 25.5% of shares of Garanti Bankasi), National Bank of Greece (agreed to buy 46% share of Finansbank) and Bank TuranAlem Group (agreed to buy 33.98% shares of Sekerbank).

## **DEBT**

The Central Government total domestic debt stock was approximately YTL251.9 billion as of August 2006, compared to YTL244.8 billion as of December 2005.

In September 2006, the average maturity of Turkish internal public debt was 27.1 months, compared to 26.8 months in September 2005. The average annual interest rate on internal public debt in local currency (including discounted treasury bills/government bonds and fixed rate government bonds) on a compounded basis was 17.1% as of September 2006, compared to 17.0% in the same period in 2005.

The total gross outstanding external debt of The Republic was approximately \$186.0 billion at the end of the first quarter of 2006 and approximately \$193.6 billion at the end of the second quarter of 2006.

Since December 31, 2004, The Republic has issued the following external debt:

- \$2 billion of global notes on January 24, 2005, which mature on February 5, 2025 and have a 7.375% interest rate.
- EUR1 billion of Eurobonds on February 16, 2005, with a maturity of twelve years and a 5.5% interest rate.
- \$1.25 billion of global notes on June 7, 2005, which mature on June 5, 2020 and have a 7.00% interest rate.
- EUR650 million of Eurobonds on July 6, 2005, with a maturity of seven years and a 4.75% interest rate.
- \$750 million of global notes on November 23, 2005, which mature on March 15, 2015 and have a 7.25% interest rate.
- EUR350 million of Eurobonds on December 14, 2005, with a maturity of seven years and a 4.75% interest rate.
- \$1.5 billion of global notes on January 17, 2006, which mature on March 17, 2036 and have a 6.875% interest rate.

- EUR750 million of Eurobonds on March 1, 2006, with a maturity of ten years and a 5.0% interest rate.
- \$500 million of global notes on July 19, 2006, which mature on January 15, 2014 and have a 9.50% interest rate.
- \$1.5 billion of global notes on September 26, 2006, which mature on September 26, 2016 and have a 7.00% interest rate.

The aggregate amount of scheduled repayment of principal and interest on the medium-term and long-term external debt of The Republic as of June 30, 2006 was \$19.5 billion, \$35.8 billion and \$23.6 billion for the rest of 2006, 2007 and 2008, respectively.

On September 14, 2006, The Republic announced that, in accordance with its invitation (the "Invitation") to holders of 11.375% Notes due 2006, 10% Notes due 2007, 10.5% Notes due 2008, 9.875% Notes due 2008, 12% Notes due 2008, 12.375% Notes due 2009 and 11.75% Notes due 2010 (collectively, the "old notes") to submit one or more offers to exchange or tender for purchase such old notes for 7% Notes due 2016 (the "2016 Notes"), on the terms and subject to the conditions set forth in the prospectus supplement dated September 6, 2006 to the prospectus dated August 10, 2006, it expected to issue \$1,169,720,000 aggregate principal amount of 2016 Notes. In addition, The Republic announced that it expected to issue \$330,280,000 aggregate principal amount of 2016 Notes for cash (the "Cash Offering" and together with the Invitation, the "Global Notes Offering"). After confirmation by the exchange agent that the above definitive amounts were the final amounts of 2016 Notes to be issued pursuant to the Invitation, The Republic issued \$1,500,000,000 aggregate principal amount of 2016 Notes pursuant to the Global Note Offering. In addition, The Republic paid an aggregate amount of \$29,033,206 in cash for accrued but unpaid interest (to but not including September 26, 2006, the settlement date) on the outstanding principal amount of old notes exchanged pursuant to the Invitation and an aggregate amount of \$116,536 in cash as a result of rounding down to the nearest integral multiple of \$1,000 of the aggregate principal amount of the 2016 Notes issuable to each holder of old notes exchanged pursuant to the Invitation.

## **INTERNATIONAL RELATIONS**

As a result of the war against Iraq, neighboring countries, including The Republic, have experienced and may continue to experience certain negative economic effects, such as decreases in revenues from trade and tourism, increases in oil expenditures, decreases in capital inflow, increases in interest rates and increases in military expenditures. The Republic continues to be affected by the consequences of conflicts in other countries in the Middle East, including Iraq, and has been the victim of isolated terrorist attacks.

Furthermore, the relations between other countries in the Middle East and outside powers are often subject to tensions that could result in the economic and/or diplomatic sanctions being imposed on one or more of The Republic's neighbors. It is also possible that such tensions could lead to military action. Any such sanctions or military action could have a negative impact on The Republic's economy and political stability.

The European Council's Parliamentary Assembly removed The Republic from its human rights monitoring list on June 22, 2004. The ninth EU harmonization package was submitted to the Assembly on June 24, 2004. The Republic's level of progress towards alignment with the Accession Partnership in the context of National Program has been welcomed by the EU. On October 6, 2004, the European Commission, the EU's executive arm, published a progress report on The Republic's eligibility to begin EU accession negotiations. The report concluded that The Republic had sufficiently fulfilled the Copenhagen political criteria and recommended that accession negotiations be opened, provided that certain conditions, including the enactment of key legislation, are satisfied.

On December 17, 2004, the European Council announced that The Republic had sufficiently fulfilled the Copenhagen political criteria to open accession negotiations, provided that six specific pieces of legislation are implemented. Moreover, the European Council invited the European Commission to present to the European Council a proposal for a framework for accession negotiations with The Republic, with a view

towards opening such accession negotiations on October 3, 2005. The first draft of the framework for the accession negotiations was released by the European Commission on June 29, 2005. On October 3, 2005, the European Council approved the framework for negotiations on The Republic's accession to the EU enabling the negotiations to begin immediately. According to the negotiating framework, although the shared objective of the negotiations is accession, these negotiations are an open-ended process, the outcome of which cannot be guaranteed beforehand. The European Commission will undertake a formal process of examining the *acquis*, the detailed laws and rules adopted on the basis of the EU's founding treaties, called 'screening' to assess the state of preparations by The Republic for opening negotiations in specific areas. For the purposes of screening and subsequent negotiations, the *acquis* will be broken down into 35 chapters, each covering a specific policy area. The screening process started with the "Science and Research" chapter on October 20, 2005, and since that date screening processes have been initiated on 33 chapters. In addition, the process of exchanging negotiation documentation has begun on the "Education and Culture" chapter. Negotiations on the "Science and Research" chapter (Chapter 25) were opened, and closed provisionally on June 12, 2006. The negotiations on Chapter 25 were opened and closed "provisionally" because the final closing will take place after the end of the negotiations of all chapters. In other words, The Republic has fulfilled the alignment to the EU *acquis* under Chapter 25; however, if any new *acquis* is adopted by the time The Republic finishes its negotiations on the other chapters', The Republic will need to adopt that new legislation as well. On November 9, 2005, the European Commission released the 2005 Progress Report on The Republic, which contains a detailed analysis of The Republic's progress in preparing for membership. Among its conclusions, it notes that political transition is ongoing in The Republic and The Republic continues to sufficiently fulfill the Copenhagen political criteria. While important legislative reforms are now in force, the pace of change has slowed in 2005 and implementation of the reforms remains uneven. With respect to The Republic's economy, the Progress Report concludes that The Republic can be regarded as a functioning market economy as long as it firmly maintains its recent stabilization and reform achievements. With respect to The Republic's ability to adopt and implement the EU legal order, the Progress Report notes that there has been some, though uneven, progress since 2004. A further progress report is expected to be released on or about November 8, 2006, containing an updated assessment of The Republic's preparations for EU membership, including various issues which have been raised and discussed in public debate within the EU and The Republic recently.

On June 13, 2005, the EU Ministers of Foreign Affairs approved a protocol extending The Republic's Customs Union to ten new member states ("Member States") of the EU. The signing of this protocol was one of the preconditions for the commencement of accession negotiations. On July 29, 2005 the Government signed the protocol and released a unilateral declaration stating that execution, ratification and implementation of this protocol does not constitute a recognition of the Republic of Cyprus referred to in the protocol, nor does it prejudice The Republic's rights and obligations under the Treaty of Guarantee, the Treaty of Alliance, and the Treaty of Establishment of 1960. In response, a declaration by the European Community and its Member States acknowledged The Republic's execution of the protocol in accordance with the conclusions of the European Council and expressed regret that The Republic had made the unilateral declaration regarding Cyprus. The Commission is continuing to encourage The Republic to remove the various restrictions on its relations with the Republic of Cyprus, particularly those linked to the full implementation of the EU-Turkey customs union.

In September 2003, the United States and The Republic agreed upon the terms of up to \$1.0 billion in grants for The Republic, which could be used to support up to \$8.5 billion in direct loans or loan guarantees. On March 24, 2005, The Republic announced that it did not intend to make use of the loan package for the 2005-2007 period.

## **TAXATION**

The information provided below does not purport to be a complete, exhaustive or final summary of the tax law and practice currently applicable in The Republic of Turkey and Ireland. It does not take into account the possible taxation of capital gains, deemed interest income received upon sale or redemption of the Notes or coupons, if any or other special considerations that may apply in a particular situation and does in particular not consider the tax situation of commercial investors. Investors or other interested parties are required to obtain individual tax advice in connection with the acquisition and holding, as well as the sale or repayment of Notes.

### **The Republic of Turkey**

Article 30 of the Corporation Tax Law of The Republic (Law No. 5520) (the “Corporation Tax Law”) (published in the Official Gazette dated June 21, 2006, No.26205) requires a 15% (fifteen per cent.) withholding tax from the interest on the Notes received by the limited tax liability persons, being corporations resident outside The Republic. However, according to Article 30 of the Corporation Tax Law and the Council of Ministers’ Decree (Decree No. 2003/6575) (published in the Official Gazette dated December 30, 2003, No. 25332) issued thereunder, the rate of such withholding tax is reduced to 0% (zero per cent.).

Article 94 of the Income Tax Law of the Republic (Law No. 193) (the “Income Tax Law”) (published in the Official Gazette dated January 6, 1961, No.10700) requires a 25% (twenty-five per cent.) withholding tax from the interest on the Notes received by the limited tax liability persons, being individuals resident outside The Republic. However, according to Article 94 of the Income Tax Law and the Council of Ministers’ Decree (Decree No. 2003/6577) (published in the Official Gazette dated December 30, 2003, No. 25332) issued thereunder, the rate of such withholding tax is reduced to 0% (zero per cent.).

There can be no assurance that such rates will continue to be zero, but in the event of any increase in such rates, The Republic will be obliged to pay additional amounts as specified in Condition 7 of the Terms and Conditions of the Notes.

Furthermore, according to Article 15(b) of the Law Regarding the Regulation of Public Finance and Debt Management (Law No. 4749) the principal amount of the Notes and the interest thereon on each interest payment date shall be considered part of the consolidated State debt and as a result shall be exempt from any and all Turkish taxes, including withholding tax, and the issuance, delivery and execution of the Notes shall also be exempt from Turkish stamp tax and, according to Section IV.24 of Table 2 of the Stamp Tax Law (Law No. 488) (as amended), all the documents issued in connection with the repayment of the Notes are also exempt from such stamp tax.

Capital gains realised from the sale or other disposition of the Notes between non-residents of The Republic, whether corporations or individuals, are exempt from any and all Turkish taxes.

Residents of The Republic and persons otherwise subject to Turkish taxation and non-residents realising gains from the sale or disposition of the Notes to Turkish residents (whether corporations or individuals) and non-residents realizing gain from their commercial and business activities in The Republic (whether corporations or individuals) are advised to consult their own tax advisors in determining any consequences to them of the sale, purchase, ownership or disposition of the Notes.

### **Ireland**

Payments of interest in respect of the Notes issued by The Republic will be made without deduction of Irish withholding tax in circumstances where The Republic does not, in issuing the Notes or making the relevant payments, operate out of a branch or agency in Ireland or make the payments through a paying agent located in Ireland. In general, persons who are resident, or ordinarily resident, and domiciled in Ireland are liable to Irish taxation on their worldwide income whereas persons who are not resident or ordinarily resident in Ireland are only liable to Irish taxation on their Irish source income. There are a number of exemptions from Irish taxation, which may be available to Noteholders, depending on their circumstances.

## **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from July 1, 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also with effect from July 1, 2005, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

## SUBSCRIPTION AND SALE

Morgan Stanley & Co. International Limited, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main and T.C. Ziraat Bankasi A.Ş. (the "Managers") have, in a subscription agreement (the "Subscription Agreement"), dated 18 October 2006, jointly and severally agreed to subscribe and pay for the Notes at the issue price of 99.867 per cent. of their principal amount plus accrued interest from and including 16 February 2006 but excluding 19 October 2006 less a combined selling, management and underwriting commission of 0.10 per cent. of such principal amount. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the issue of the Notes. The Republic has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Notes. For the investors of the Notes, the yield is 5.909% per annum<sup>2</sup>.

### United States of America

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold within the United States or to or for the account or benefit of U.S. persons. Each of the Managers confirms that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States or to or for the account or benefit of U.S. persons.

In addition, until 40 days after the later of the commencement of this offering and the Closing Date, an offer or sale of Notes within the United States or to or for the account or benefit of any U.S. person by any dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to The Republic; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### The Republic of Turkey

Under prevailing foreign exchange regulations, there is no restriction on the sale of the Notes to residents of The Republic of Turkey, provided that they purchase such Notes which are traded in the financial markets

<sup>2</sup> The yield was calculated in accordance with the following formula by using an iterative method for solving the equation for the variable (i) (internal rate of return or yield):

$$CF_0 = \frac{CF_1}{(1+i)_1} + \frac{CF_2}{(1+i)_2} + \dots + \frac{CF_n}{(1+i)_n}$$

- $CF_0$  = means the amount of capital input for the subscription of the Bonds.
- $CF_1$  to  $CF_n$  = means the cash inflow as of [•] of each year until maturity of the Notes (interest payments and repayment of principal amount).
- $n$  = means the life of the issue in years.

abroad through banks, participation banks and brokerage companies authorised pursuant to the Capital Markets Board Regulations of The Republic in accordance with Article 15(d)(ii) of Decree No. 32 Regarding the Protection of the Value of Turkish Currency.

## **Italy**

The offering of the Notes has not been and will not be registered pursuant to the Italian securities legislation and, accordingly, each of the Managers has represented that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations. In any case, the Notes will not be sold, either in the primary or in the secondary market, to individuals residing in the Republic of Italy.

Each of the Managers has represented that it will not offer, sell or deliver any Notes or distribute copies of the Prospectus or any other document relating to the Notes in the Republic of Italy except to "Professional investors" ("*operatori professionali*"), as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998 ("Regulation No. 11522"), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("Decree No. 58"), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14 May 1999, as amended, applies, provided however, that any such offer, sale or delivery of Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended ("Decree No. 385"), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
- in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy ("*Istruzioni di vigilanza della Banca d'Italia*"), pursuant to which the issue, offer or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the aggregate amount of the securities issued, offered or placed in Italy and their characteristics, applies; and
- in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

## **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State"), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

- (c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **General**

No action has been or will be taken in any jurisdiction by The Republic or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by The Republic and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

## GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear Bank S.A./N.V. ("Euroclear"), Boulevard Emile Jacqmain 151, B-1210 Brussels, Belgium and Clearstream Banking, société anonyme, Luxembourg ("Clearstream"), 67 Boulevard Grand-Duchesse Charlotte, L-1331 Luxembourg. The Notes will initially have a temporary Common Code of 027168035 and a temporary ISIN of XS0271680356. After being consolidated and forming a single series with the Euro 1,000,000,000 5.50 per cent. Notes due 2017 issued on 16 February 2005, the Common Code of the Notes will be 021269492 and the ISIN of the Notes will be XS0212694920.
2. The Republic has obtained all necessary consents, approvals and authorisations in The Republic of Turkey in connection with the issue and performance of the Notes. The issue of the Notes was authorised, pursuant to the provisions of Articles 4 and 7 of the Law Regarding the Regulation of Public Finance and Debt Management of The Republic (Law No. 4749).
3. The address of the Republic is: The Undersecretariat of Treasury of the Republic Prime Ministry, İsmet İnönü Bulvarı, No. 36, 06510 Emek, Ankara, Turkey. The telephone number is: +90 312 212 8887.
4. The Republic has not been involved in any governmental, litigation or arbitration proceedings during the last 12 months which may have, or have had in the recent past, significant, material effects on its financial position, nor so far as The Republic is aware are any such proceedings pending or threatened.
5. The Republic has waived its right to sovereign immunity; see Condition 15(c) of the Terms and Conditions of the Notes and Risk Factors.
6. Save as disclosed in this Prospectus, since December 31, 2005 there have been no significant changes relating to public finance and trade.
7. Application has been made to IFSRA, as competent authority under the Prospectus Directive, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. Copies of the Fiscal Agency Agreement, which includes the forms of the Temporary Global Note and the Permanent Global Note, may be inspected during normal business hours at the offices of the Paying Agent in Ireland so long as any of the Notes are listed on such exchange. The total expenses of the admission to trading on the Official List of the Irish Stock Exchange are expected to be approximately €17,882.40.
8. Under the International Private and Procedural Law of The Republic (Law No. 2675) published in the Official Gazette dated May 22, 1982 and numbered 17701, a judgment of a court established in a country other than The Republic may not be enforced in the Turkish courts unless (i) there is in effect a treaty between such country and The Republic providing for reciprocal enforcement of judgments or (ii) there is de facto reciprocity in the field of enforcement of judgments between such country and The Republic or (iii) there is a provision in the laws of such country which provides for the enforcement of judgments of the Turkish courts.
9. In accordance with the rules of the IFSRA, for so long as the Notes are listed on the Official List of the Irish Stock Exchange notices to the Noteholders shall be published in a daily newspaper having general circulation in Ireland (which is expected to be the Financial Times). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to Noteholders. This requirement is in addition to the provisions of Condition 13 (Notices).
10. The Notes and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code".

11. The information contained in the Annual Report of the Republic on the Form 18-K for the fiscal year ended December 31, 2005 filed with the IFSRA on October 10, 2006, shall be deemed to be incorporated in, and to form part of, this Prospectus.
12. There are no interests of any natural or legal persons, including conflicting interests, that are material to the issue of the Notes.
13. For the life of this Prospectus, copies of the following documents (including English translations where relevant) may be inspected at the registered office of the Paying Agent in Dublin:
  - (a) the latest available annual report of the Republic on the Form 18-K filed with the SEC with economic, financial and statistical information for the five preceding years;
  - (b) copies of the following contractual documents: the Fiscal Agency Agreement, Deed of Covenant, Permanent Global Note, Temporary Global Note and Subscription Agreement.

Copies of (a) are also available in electronic form from the offices of The Republic.

**ISSUER**

**The Undersecretariat of Treasury of  
The Republic Prime Ministry**  
İsmet İnönü Bulvarı  
06510 Emek  
Ankara

**FISCAL AGENT**

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**IRISH PAYING AGENT**

**Deutsche International Corporate Services (Ireland) Limited**  
5 Harbourmaster Place  
IFSC Dublin 1

**COMMON DEPOSITARY**

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
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**LEGAL ADVISER TO THE REPUBLIC**

**The First Legal Adviser to the  
Undersecretariat of Treasury**  
İsmet İnönü Bulvarı  
06510 Emek  
Ankara

**LEGAL ADVISERS TO THE MANAGERS**

*As to English law*  
**Clifford Chance**  
**Limited Liability Partnership**  
10 Upper Bank Street  
London E14 5JJ

*As to Turkish law*  
**PEKIN & PEKIN**  
Lamartine Caddesi 10  
Taksim 34437 İstanbul

**IRISH LISTING AGENT**

**Deutsche Bank Luxembourg S.A.**  
2 Boulevard Konrad Adenauer  
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## **MANAGERS**

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25 Cabot Square  
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