



THE REPUBLIC OF TURKEY

Hazine Müsteşarlığı Varlık Kiralama Anonim Sirketi
(Undersecretariat of Treasury Asset Leasing Company)

U.S.\$1,000,000,000 Lease Certificates due 2021

The unsecured U.S.\$1,000,000,000 lease certificates due 2021 and issued on the Closing Date (as defined herein) (the "**Certificates**") which, for the avoidance of doubt, shall not include the Prior Certificates (as defined herein) of Hazine Müsteşarlığı Varlık Kiralama Anonim Sirketi (the "**Issuer**") will be authorised and issued in accordance with the terms of the Transaction Documents (as defined herein), including an agreement (the "**Representative Agreement**") dated on or about 8 June 2016 (the "**Closing Date**") between the Issuer, the Republic of Turkey (the "**Republic**") and Citibank N.A., London Branch (the "**Representative**"). The Representative will act as trustee for the holders of the Certificates (each a "**Certificateholder**", and together, the "**Certificateholders**"). The issuance proceeds of the Certificates will be applied by the Issuer towards the acquisition of Lease Certificate Assets (as defined herein) and, pursuant to Article 7/A of Law Number 4749 on Regulating Public Finance and Debt Management (as amended by Article 32 of Law Number 6327 and Article 2 of Law Number 6456) ("**Article 7/A of Law Number 4749**"), once the Issuer acquires the Lease Certificate Assets, the Certificateholders shall have the right to receive from the Issuer the economic benefit of the use of the Lease Certificate Assets. Pursuant to Article 7/A of Law Number 4749, the ministerial decisions dated 17 August 2012 and 1 June 2016 passed by the Deputy Prime Minister for Economic and Financial Affairs (the "**Ministerial Decisions**"), the Issuer will hold its interests in the Lease Certificate Assets in its own name and on its own behalf and for the account of and benefit of the Certificateholders and the income accruing to the Issuer from the purchased Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders.

On 8 December and 8 June in each year, commencing on 8 December 2016 and ending on the Scheduled Dissolution Date (as defined below) (each, a "**Periodic Distribution Date**"), or if any Periodic Distribution Date is not a Business Day (as defined herein), the following Business Day, the Issuer will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at a rate of 4.251 per cent. per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on a 30/360 day basis.

The Issuer will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Lease Certificate Assets which represent a defined share in the rental payments by the Republic in its capacity as lessee under the Lease Agreement (as defined herein). Unless previously redeemed in the circumstances described in Condition 10 (*Capital Distributions*), the Certificates will be redeemed on 8 June 2021 (the "**Scheduled Dissolution Date**") at the Dissolution Distribution Amount (as defined herein). The Issuer will pay the Dissolution Distribution Amount solely from the proceeds received in respect of the Lease Certificate Assets which consist of payments by the Republic as obligor under the Purchase Undertaking (as defined herein).

An investment in the Certificates involves certain risks. For a discussion of these risks, see "Risk Factors" beginning on page 14.

On issuance, the Certificates are expected to be assigned a rating of BBB- by Fitch Ratings Limited ("**Fitch**") and Baa3 by Moody's Investors Service Limited ("**Moody's**"). Each of Fitch and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of Fitch and Moody's is included in the list of credit ratings agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold the Certificates (or the rights therein), does not address the likelihood or timing of payment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

This Prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Certificates which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC (each such regulated market being a "**MiFID Regulated Market**") and/or which are to be offered to the public in any member state of the European Economic Area. Once the Issuer acquires the Lease Certificate Assets, the Certificateholders shall have the right to receive from the Issuer the economic benefit of the use of the Lease Certificate Assets. Under the laws of the Republic, the Issuer will hold its interest in the Lease Certificate Assets in its own name and on its own behalf and for the account of and benefit of the Certificateholders and the income from the purchased Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the Issuer and for the account and the benefit of Certificateholders.

The Executive Shariah Committee of HSBC Saudi Arabia Limited and the *Shari'a* Supervisory Committee of Standard Chartered Bank have approved the transaction structure relating to the Certificates (as described in this Prospectus). Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Islamic Finance advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with principles of Islamic Finance.

On 26 September 2012, the Issuer issued U.S.\$1,500,000,000 in aggregate face amount of lease certificates due 2018 (the "**2012 Certificates**"), on 10 October 2013, the Issuer issued U.S.\$1,250,000,000 in aggregate face amount of lease certificates due 2018 (the "**2013 Certificates**") and, on 25 November 2014, the Issuer issued U.S.\$1,000,000,000 in aggregate face amount of lease certificates due 2024 (the "**2014 Certificates**"). The Issuer has also made other issuances of lease certificates from time to time in the domestic markets pursuant to Article 7/A of Law Number 4749 (together with the 2012 Certificates, the 2013 Certificates and the 2014 Certificates, the "**Prior Certificates**"). Each issuance of Prior Certificates constitutes a separate series of lease certificates from the Certificates offered hereby unless otherwise stated. References in this Prospectus to any "Certificates", "Lease Certificate Assets", "Transaction Documents" and other related documents, refer only to the Certificates authorised herein and the related assets and documents.

The Issuer will be primarily relying on one or more exemptions under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"), other than the exemptions contained in Section 3(c)(1) and Section 3(c)(7). Accordingly, the Issuer will be structured and will conduct its business so as not to constitute a "covered fund" for purposes of the regulations adopted to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (such statutory provision together with such implementing regulations, the "**Volcker Rule**"). Any prospective investor in the Certificates, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisors regarding such matters and other effects of the Volcker Rule. For further information, see "**Important Notices**".

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Issuer has not been and will not be registered under the Investment Company Act. Accordingly, the Certificates are being offered and sold: (i) to non-U.S. persons in offshore transactions in reliance on Regulation S (the "**Regulation S Certificates**"); and (ii) within the United States to "qualified institutional buyers" (each a "**QIB**") as defined in Rule 144A under the Securities Act ("**Rule 144A**") who are also "qualified purchasers" (each, a "**QP**") as defined in Section 2(a)(51) of the Investment Company Act in reliance on the exemption from registration provided by Rule 144A (the "**Rule 144A Certificates**"). Prospective purchasers are hereby notified that sellers of the Rule 144A Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "**Subscription and Sale**" and "**Transfer Restrictions**".

Delivery of the Certificates in book-entry form will be made on the Closing Date. The Certificates will be represented by interests in one or more global certificates in registered form (the "**Global Certificates**"). Rule 144A Global Certificates will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") while Regulation S Global Certificates will be deposited with, and registered in the name of a nominee of, a common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and/or Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificates only in certain limited circumstances described herein.

Joint Lead Managers

Emirates NBD Capital

HSBC

Standard Chartered Bank

The date of this Prospectus is 7 June 2016

IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Republic and the Certificates which, according to the particular nature of the Issuer, the Republic and the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Republic.

The Certificates to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Certificates offered should conduct their own due diligence on the Certificates. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

Each of the Issuer and the Republic accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Republic (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is or has been authorised by the Issuer or the Republic to give any information or to make any representation not contained in or not consistent with this Prospectus in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Republic, the Joint Lead Managers, the Representative, the Agents (each as defined herein) or any other person. Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Certificates is correct as of any time subsequent to the date indicated in the document containing the same. The Representative and the Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Republic during the life of the Certificates or to advise any investor in the Certificates of any information coming to their attention.

None of the Joint Lead Managers or the Representative has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Issuer or the Republic in connection with the offering of Certificates.

Neither this Prospectus nor any other information supplied in connection with the offering of Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Republic, the Joint Lead Managers or the Representative that any recipient of this Prospectus or any other information supplied in connection with the offering of Certificates should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Republic. None of the Joint Lead Managers or the Representative accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer or the Republic in connection with the offering of the Certificates.

No comment is made or advice given by the Issuer, the Republic, the Joint Lead Managers or the Representative in respect of taxation matters relating to any Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency; (iv) understand thoroughly the terms of the Certificates 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 and other factors that may affect its investment and its ability to bear the applicable risks.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF ANY CERTIFICATES.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the Republic, the Joint Lead Managers or the Representative represents that this Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Republic, the Joint Lead Managers or the Representative which is intended to permit a public offering of any Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the Dubai International Financial Centre, the United Arab Emirates (excluding the Dubai International Financial Centre), the United Kingdom, Malaysia, the Kingdom of Saudi Arabia, the State of Qatar, Singapore, the State of Kuwait, the Kingdom of Bahrain, Hong Kong, Japan and the Sultanate of Oman. See "*Subscription and Sale*".

This Prospectus has been prepared on the basis that any offer of Certificates in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Certificates. Accordingly, any person making or intending to make an offer in that Relevant Member State of Certificates which are the subject of the offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Issuer, the Republic or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive in relation to the offer of Certificates. None of the Issuer, the Republic or any Joint Lead Manager have authorised, nor do they authorise, the making of any offer of Certificates in circumstances in which an obligation arises for the Issuer, the Republic or any Joint Lead Manager to publish or supplement a prospectus for such offer.

None of the Joint Lead Managers, the Issuer, the Republic or the Representative makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CERTIFICATES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Certificates may not be offered or sold within the United States, except in transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. The Issuer has not been and will not be registered as an investment company in the United States under the Investment Company Act. Each investor, by purchasing a Certificate, agrees that the Certificates may be reoffered, resold, repledged or otherwise transferred only upon registration under the Securities Act or pursuant to the exemptions therefrom.

described under "*Transfer Restrictions*". Each investor also will be deemed to have made certain representations and agreements as described therein.

The Certificates are being offered and sold to non-U.S. persons in offshore transactions in reliance on Regulation S and within the United States only to QIBs who are also QPs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Certificates and distribution of this Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Issuer will be primarily relying on one or more exemptions under the Investment Company Act other than the exemptions contained in Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act. Accordingly, the Issuer is being structured and intends to conduct its business so as not to constitute a "covered fund" for the purposes of the Volcker Rule. The Volcker Rule generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from: (i) engaging in proprietary trading; (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund"; and (iii) entering into certain relationships with such funds. The Volcker Rule became effective on 21 July 2012, and final regulations implementing the Volcker Rule were adopted on 10 December 2013, and became effective on 1 April 2014. Conformance with the Volcker Rule and its implementing regulations was required by 21 July 2015. Under the Volcker Rule, unless jointly determined otherwise by specified federal regulators, a "covered fund" does not include an issuer that may rely on an exclusion or exemption from the definition of "investment company" under the Investment Company Act other than the exclusions contained in Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act. The general effects of the Volcker Rule remain uncertain. **Any prospective investor in the Certificates, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisors regarding such matters and other effects of the Volcker Rule.**

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

THIS PROSPECTUS MAY NOT BE DISTRIBUTED IN THE KINGDOM OF SAUDI ARABIA EXCEPT TO SUCH PERSONS AS ARE PERMITTED UNDER THE OFFERS OF SECURITIES REGULATIONS ISSUED BY THE CAPITAL MARKET AUTHORITY OF THE KINGDOM OF SAUDI ARABIA (THE "**CAPITAL MARKET AUTHORITY**").

THE CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF THIS PROSPECTUS, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS PROSPECTUS. PROSPECTIVE PURCHASERS OF THE CERTIFICATES OFFERED HEREBY SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE CERTIFICATES. IF A PROSPECTIVE PURCHASER DOES NOT UNDERSTAND THE CONTENTS OF THIS PROSPECTUS HE OR SHE SHOULD CONSULT AN AUTHORISED FINANCIAL ADVISER.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

IN RELATION TO INVESTORS IN THE KINGDOM OF BAHRAIN, CERTIFICATES ISSUED IN CONNECTION WITH THIS PROSPECTUS AND RELATED OFFERING DOCUMENTS MAY ONLY BE OFFERED IN REGISTERED FORM TO EXISTING ACCOUNTHOLDERS AND ACCREDITED INVESTORS AS DEFINED BY THE CENTRAL BANK OF BAHRAIN ("**CBB**") IN THE KINGDOM OF BAHRAIN WHERE SUCH INVESTORS MAKE A MINIMUM INVESTMENT OF AT LEAST U.S.\$100,000 OR ANY EQUIVALENT AMOUNT IN OTHER CURRENCY OR SUCH OTHER AMOUNT AS THE CBB MAY DETERMINE.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF SECURITIES IN THE KINGDOM OF BAHRAIN PURSUANT TO THE TERMS OF ARTICLE (81) OF THE CENTRAL BANK AND FINANCIAL INSTITUTIONS LAW 2006 (DECREE LAW NO. 64 OF 2006). THIS PROSPECTUS AND RELATED OFFERING DOCUMENTS HAVE NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE CBB. ACCORDINGLY, NO CERTIFICATES MAY BE OFFERED, SOLD OR MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE NOR WILL THIS PROSPECTUS OR ANY OTHER RELATED DOCUMENT OR MATERIAL BE USED

IN CONNECTION WITH ANY OFFER, SALE OR INVITATION TO SUBSCRIBE OR PURCHASE CERTIFICATES, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN THE KINGDOM OF BAHRAIN, OTHER THAN TO ACCREDITED INVESTORS FOR AN OFFER OUTSIDE THE KINGDOM OF BAHRAIN.

THE CBB HAS NOT REVIEWED, APPROVED OR REGISTERED THE PROSPECTUS OR RELATED OFFERING DOCUMENTS AND IT HAS NOT IN ANY WAY CONSIDERED THE MERITS OF THE SECURITIES TO BE OFFERED FOR INVESTMENT, WHETHER IN OR OUTSIDE THE KINGDOM OF BAHRAIN. THEREFORE, THE CBB ASSUMES NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS PROSPECTUS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENT OF THIS PROSPECTUS. NO OFFER OF SECURITIES WILL BE MADE TO THE PUBLIC IN THE KINGDOM OF BAHRAIN AND THIS PROSPECTUS MUST BE READ BY THE ADDRESSEE ONLY AND MUST NOT BE ISSUED, PASSED TO, OR MADE AVAILABLE TO THE PUBLIC GENERALLY.

NOTICE TO RESIDENTS OF MALAYSIA

CERTIFICATES MAY NOT BE OFFERED FOR SUBSCRIPTION OR PURCHASE AND NO INVITATION TO SUBSCRIBE FOR OR PURCHASE SUCH CERTIFICATES IN MALAYSIA MAY BE MADE, DIRECTLY OR INDIRECTLY, AND THIS PROSPECTUS OR ANY DOCUMENT OR OTHER MATERIALS IN CONNECTION THEREWITH MAY NOT BE DISTRIBUTED IN MALAYSIA OTHER THAN TO PERSONS FALLING WITHIN ANY ONE OF THE CATEGORIES OF PERSONS SPECIFIED UNDER SCHEDULE 6 OR SECTION 229(1)(B), SCHEDULE 7 OR SECTION 230(1)(B) AND SCHEDULE 8 OR SECTION 257(3), READ TOGETHER WITH SCHEDULE 9 OR SECTION 257(3) OF THE CAPITAL MARKET AND SERVICES ACT 2007 OF MALAYSIA. THE SECURITIES COMMISSION OF MALAYSIA SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE REPRESENTATIVE, THE ISSUER OR THE REPUBLIC AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS PROSPECTUS.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

THIS PROSPECTUS DOES NOT AND IS NOT INTENDED TO CONSTITUTE AN OFFER, SALE OR DELIVERY OF THE CERTIFICATES UNDER THE LAWS OF THE STATE OF QATAR AND HAS NOT BEEN AND WILL NOT BE REVIEWED OR APPROVED BY OR REGISTERED WITH THE QATAR FINANCIAL MARKETS AUTHORITY, THE QATAR FINANCIAL CENTRE REGULATORY AUTHORITY, THE QATAR EXCHANGE OR THE QATAR CENTRAL BANK. THE CERTIFICATES HAVE NOT BEEN, AND WILL NOT BE, OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, IN THE STATE OF QATAR, INCLUDING THE QATAR FINANCIAL CENTRE, IN A MANNER THAT WOULD CONSTITUTE A PUBLIC OFFERING. THE CERTIFICATES ARE NOT AND WILL NOT BE TRADED ON THE QATAR EXCHANGE.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Certificates are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it will during any period that it is neither subject to sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of Certificates or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

PRESENTATION OF INFORMATION

Statistical, financial and economic information contained in Exhibit D-2 to the Republic's Amendment No. 2 to the Annual Report for the year ended 31 December 2014 which was filed with the U.S. Securities and Exchange Commission on 19 January 2016 on Form 18-K/A, which is set out in Annex A to this Prospectus ("**Exhibit D-2 to the Form 18-K/A**") (such statistical, financial and economic information, "**Relevant Information**") is official data publicly available as of the date of this Prospectus,

and in most cases is the latest official data publicly available. Financial information including public finance data contained in Exhibit D-2 to the Form 18-K/A has not been audited. Relevant Information may be subsequently revised in accordance with the Republic's ongoing maintenance of its Relevant Information, and such revised Relevant Information will not be distributed by the Republic to any holder of the Certificates. Certain recent developments to Relevant Information of the Republic are set out in the section of this Prospectus entitled "*Recent Developments*". Certain statistical information under the heading "*Recent Developments*" has been extracted from information publicly made available by third parties including the Turkish Statistical Institute ("**TURKSTAT**"). The source of any third party information is stated where such information appears in this Prospectus. Each of the Issuer and the Republic confirms that third party information contained in this Prospectus has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

References to "**Republic**" or "**Turkey**" herein are to the Republic of Turkey.

References to "**Treasury**" herein are to the Prime Ministry, Undersecretariat of Treasury of the Republic.

References to "**Central Bank**" herein are to the Central Bank of the Republic of Turkey.

References to "**Member State**" herein are to a Member State of the European Economic Area.

The fiscal year of the Republic ends on 31 December of each year. The fiscal year ended 31 December 2014 is referred to in this Prospectus as "**2014**", and other fiscal years are referred to in a similar manner.

Totals in certain tables contained in this Prospectus, including Annex A (consisting of Exhibit D-2 to the Form 18-K/A) may differ from the sum of the individual items in such tables due to rounding conventions. In addition, certain figures contained in this Prospectus relating to the Republic are estimates prepared in accordance with procedures customarily used by the Republic for the reporting of data. Certain other figures are preliminary in nature. In each case, the actual figures may vary from the estimated or preliminary figures relating to the Republic set forth in this Prospectus.

Unless otherwise specified, percentage increases or decreases stated for periods or dates in a particular year represent increases or decreases as compared with the relevant amount for the corresponding period or date in the immediately preceding year.

FORWARD-LOOKING STATEMENTS

This Prospectus and its Annex A (consisting of Exhibit D-2 to the Form 18-K/A) includes forward-looking statements. All statements other than statements of historical facts included in this Prospectus regarding, amongst other things, the Republic's economy, fiscal condition, debt or prospects may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "**may**", "**will**", "**expect**", "**intend**", "**estimate**", "**anticipate**", "**believe**", "**continue**", or similar terminology. Such statements are based on the Republic's current plans, estimates, assumptions and projections which the Republic believes are reasonable at this time. However, prospective investors should not place undue reliance on them. Forward-looking statements speak only as of the date they are made and the Republic undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks. The Republic cautions prospective investors that a number of factors could cause actual results to differ materially from those contained in any forward-looking statements. These factors include, but are not limited to:

- External factors, such as:
 - interest rates in financial markets outside the Republic;
 - the impact of changes in the credit rating of the Republic;
 - the impact of changes in the international prices of commodities;
 - economic conditions in the Republic's major export markets;

- the decisions of international financial institutions regarding the terms of their financial arrangements with the Republic;
- the impact of any delays or other adverse developments in the Republic's accession to the European Union; and
- the impact of adverse developments in the region where the Republic is located.
- Internal factors, such as:
 - general economic and business conditions in the Republic;
 - present and future exchange rates of the Turkish currency;
 - foreign currency reserves;
 - the level of domestic debt;
 - domestic inflation;
 - the ability of the Republic to effect key economic reforms;
 - the level of foreign direct and portfolio investment; and
 - the level of Turkish domestic interest rates.

DATA DISSEMINATION

The Republic is a subscriber to the International Monetary Fund's Special Data Dissemination Standard ("**SDDS**"), which is designed to improve the timeliness and quality of information of subscribing member countries. The SDDS requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released, the so-called "**Advance Release Calendar**". For the Republic, precise dates or "no later than dates" for the release of data under the SDDS are disseminated no-later-than three months in advance through the Advance Release Calendar, which is published on the Internet under the International Monetary Fund (the "**IMF**")'s Dissemination Standards Bulletin Board. Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standard Bulletin Board. The Internet website is located at <http://dsbb.imf.org/Pages/SDDS/CtyCtgList.aspx?ctycode=TUR>. The website and any information on it are not part of this Prospectus. All references in this Prospectus to this website are inactive textual references to this URL, or "uniform resource locator", and have been included for information purposes only.

EXCHANGE RATES

In this Prospectus, references to "**Turkish Lira**" and "**TL**" in the context of a point in time after 1 January 2009 are to the Turkish Lira, the Republic's official currency, which was introduced on 1 January 2009 in place of the New Turkish Lira; references in this Prospectus to "**New Turkish Lira**" and "**YTL**" are to the lawful currency of the Republic for the period beginning on 1 January 2005 and ending on 31 December 2008; and references to "**Turkish Lira**" and "**TL**" in this Prospectus in the context of a point in time prior to 1 January 2005 are to the Turkish Lira before it was replaced with the New Turkish Lira. References to "**U.S. dollars**", "**U.S.\$**", "**dollars**" and "**\$**" refer to United States dollars being the legal currency for the time being of the United States of America; and references to "**euro**" and "**€**" are to the currency introduced at the start of the third stage of the Treaty on the Functioning of the EU, as amended.

The following table sets forth the exchange rate between the New Turkish Lira, the Turkish Lira and the U.S. dollar for the last day during, and the average for, the periods indicated.

Year	Period End	Period Average ⁽¹⁾
2007.....	1.17030	1.30780
2008.....	1.51960	1.29920
2009.....	1.51300	1.55450
2010.....	1.55350	1.50760
2011.....	1.91570	1.67810
2012.....	1.79120	1.80110
2013.....	2.13810	1.90540
2014.....	2.32300	2.19180
2015.....	2.91280	2.72490
2016 (through 31 May 2016)	2.96130	2.92540

Note:

⁽¹⁾ The average of the monthly average exchange rates for each month of the applicable period where "monthly average" means the average of the exchange rate on the last business day of each month for annual averages and the average of the exchange rates on each business day during the relevant period for monthly averages.

Source: Central Bank.

Translations of amounts from Turkish Lira to dollars 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. No representation is made that the Turkish Lira or dollar amounts referred to herein could have been or could be converted into dollars or Turkish Lira, as the case may be, at any particular rate or at all.

ENFORCEMENT

The Issuer was established by the Republic as an asset leasing company incorporated in Turkey in accordance with, and to operate in conformity with, Article 7/A of Law Number 4749 and the Ministerial Decisions. The Issuer is wholly-owned by the Republic. All of the directors of the Issuer reside in the Republic and substantially all of the assets of the Issuer are located in the Republic. As a result, it may not be possible for investors to effect service of process outside the Republic upon the Republic or the Issuer, or to enforce judgments against them obtained in courts outside the Republic predicated upon civil liabilities of the Republic or the Issuer under laws other than the laws of the Republic, including any judgment predicated upon United States federal securities laws. Each of the Issuer and the Republic has been advised by its respective Turkish legal counsel that there is doubt as to the enforceability in the Republic in original actions or in actions for enforcement of judgments of the courts of foreign jurisdictions of civil liabilities predicated solely upon the securities laws of the respective jurisdiction. The Republic is a sovereign state and its assets are immune from attachment. See *"Overview of the Offering – Waiver of Immunity"*. Consequently, it may be difficult for investors to obtain or realise upon judgments of courts in the United States or elsewhere against the Republic. See *"Risk Factors—Risks relating to the Republic—The Republic is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it."*

Any judgment obtained or to be enforced in the Republic must be obtained or enforced in accordance with the laws of the Republic.

THE CERTIFICATES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- (i) **have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investment in the Certificates and the information contained in this Prospectus;**
- (ii) **have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;**

- (iii) **have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;**
- (iv) **understand thoroughly the terms of the Certificates 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 and other factors that may affect its investment and its ability to bear applicable risks.**

STABILISATION

SUBSEQUENT TO THE ISSUE OF THE CERTIFICATES, THE JOINT LEAD MANAGER NAMED AS STABILISING MANAGER (OR ANY PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL, BUT IN DOING SO, THE STABILISING MANAGER SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE ISSUER OR THE REPUBLIC. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE CLOSING DATE 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 CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION ACTION SHALL BE CONDUCTED BY THE RELEVANT STABILISING MANAGER (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES AND WITH THE PRIOR CONSULTATION AND PRIOR AGREEMENT OF THE JOINT LEAD MANAGERS.

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OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in the "Terms and Conditions of the Certificates" and "Summary of the Principal Transaction Documents" shall have the same meanings in this overview. Reference to "Condition" is to a numbered condition of the Conditions of the Certificates.

Parties:

Issuer: Hazine Müsteşarlığı Varlık Kiralama Anonim Şirketi (the "**Issuer**"), an asset leasing company incorporated in accordance with the laws of the Republic. The Issuer has been incorporated solely for the purpose of issuing lease certificates under Article 7/A of law number 4749 and Ministerial Decisions dated 17 August 2012, including participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party. The Issuer shall on the Closing Date issue Certificates to the Certificateholders.

Ownership of the Issuer: The Issuer is wholly-owned by the Republic.

Seller: The Republic. Pursuant to a sale and purchase agreement (the "**Sale Agreement**"), the Republic will sell to the Issuer, and the Issuer will purchase from the Republic, all of the Republic's interests, rights, benefits and entitlements in and to certain real estate assets (the "**Lease Assets**") in accordance with the terms of the Sale Agreement.

Lessor: The Issuer. Pursuant to the Lease Agreement, the Issuer will lease to the Republic, and the Republic will lease from the Issuer, the Lease Assets in accordance with the terms of the Lease Agreement.

Lessee: The Republic. Pursuant to the Lease Agreement, the Republic will lease from the Issuer, and the Issuer will lease to the Republic, the Lease Assets in accordance with the terms of the Lease Agreement.

Obligor: The Republic. In accordance with the terms of the Purchase Undertaking, the Republic will be required, following the service of an exercise notice (the "**Exercise Notice**") by or on behalf of the Issuer, to purchase the interests, rights, benefits and entitlements in and to the Lease Assets from the Issuer at the Exercise Price.

Servicing Agent: The Republic. Under the Lease Agreement, the Lessor shall be responsible for obtaining insurance for the Lease Assets to the extent that it is reasonable and commercially practicable in a manner that is compliant with the principles of Islamic finance, paying all proprietorship taxes (if

any) in respect of the Lease Assets and performing major maintenance and structural repair on the Lease Assets. In accordance with the terms of the Servicing Agency Agreement, the Republic in its capacity as servicing agent (the "**Servicing Agent**") will be required to perform, or procure the performance of, major maintenance and structural repair and the payment of proprietorship taxes (if any) and ensure that the Lease Assets are insured to the extent reasonable and commercially practicable, in a manner compliant with the principles of Islamic finance against a Total Loss Event. The Servicing Agent may delegate its obligations under the Servicing Agency Agreement to the relevant government entity which has been allocated the use of a specific asset from the Lease Assets. It is not required that the insurances for the Lease Assets are entered into with third parties and the Republic will be permitted to self insure the Lease Assets.

Joint Lead Managers:	Emirates NBD P.J.S.C., HSBC Bank plc and Standard Chartered Bank.
Representative:	Citibank, N.A., London Branch (the " Representative ") in its capacity under the Representative Agreement.
Principal Paying Agent:	Citibank, N.A., London Branch.
Transfer Agents:	Citibank, N.A., London Branch and Citigroup Global Markets Deutschland AG.
Registrar:	Citigroup Global Markets Deutschland AG.

Overview of the Structure and Summary of the Transaction Documents:

Overview of the Structure:	An overview of the structure of the transaction and the principal cash flows is set out in the section entitled " <i>Structure Diagram and Cash Flows</i> ".
Summary of the Transaction Documents:	A description of the principal terms of the significant Transaction Documents is set out in the section entitled " <i>Summary of the Principal Transaction Documents</i> ".

Overview of the Certificates:

Certificates:	U.S.\$1,000,000,000 lease certificates due 2021.
Lease Certificate Assets:	To the extent permitted by Article 7/A of Law Number 4749, the Ministerial Decisions, the Representative Agreement and the Conditions, each Certificate will, upon issue, evidence the entitlement of each Certificateholder, once the Issuer acquires the Lease Certificate Assets, to a right to receive the economic benefit of the use of the Lease Certificate Assets in the proportion which the face amount of such Certificate bears to the aggregate outstanding Certificates and will rank <i>pari passu</i> , without any preference, with the other Certificates. Pursuant to the Representative

Agreement, the Issuer will declare that it will hold certain assets (the "**Lease Certificate Assets**"), consisting of:

- (i) all of the Issuer's rights, interests and benefits (present and future) in, to and under the Lease Assets;
- (ii) all monies standing to the credit of the Transaction Account;
- (iii) all of the Issuer's rights, interests and benefits (present and future) in, to and under the Transaction Documents (excluding any representations given to the Issuer by the Republic pursuant to any of the Transaction Documents); and
- (iv) all proceeds of the foregoing held by the Issuer,

for the benefit of, and shall be accounted by the Issuer to, the Certificateholders, and the income accruing to the Issuer from the Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders, on a *pro rata* basis in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates.

The Republic has represented and warranted in the Purchase Undertaking, among other things, that the payment obligations of the Republic under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement are and will be direct, unconditional, unsubordinated, unsecured and general obligations of the Republic at all times ranking at least equally with all other unsecured and unsubordinated External Indebtedness (as defined in the Conditions) of the Republic from time to time outstanding. It is understood that under this clause the Republic shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Certificates and vice versa.

Closing Date:

8 June 2016.

Issue Price:

100 per cent. of the aggregate face amount of the Certificates.

Periodic Distribution Dates:

The 8th day in December and June in each year, commencing on 8 December 2016 and, subject to Condition 8 (*Periodic Distribution Provisions*),

ending on the Scheduled Dissolution Date.

Periodic Distribution Amounts:

On each Periodic Distribution Date, the Certificateholders will be entitled to receive a Periodic Distribution Amount determined in accordance with Condition 8 (*Periodic Distribution Provisions*) representing a defined share of the Rental paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Assets. In the event that a Periodic Distribution Date falls on a day that is not a Business Day, such payment shall be paid to the Certificateholders on the following Business Day (and no additional Periodic Distribution Amount shall accrue).

Scheduled Dissolution Date:

8 June 2021.

Scheduled Dissolution:

Upon receipt by the Issuer of the Exercise Price payable in accordance with the terms of the Purchase Undertaking, and unless the Certificates are previously redeemed or cancelled, the Issuer will be required to apply the Exercise Price to redeem each outstanding Certificate at the Dissolution Distribution Amount on the Scheduled Dissolution Date.

Dissolution Distribution Amount:

In relation to each Certificate, the aggregate of:

- (i) the outstanding face amount of such Certificate;
- (ii) any accrued but unpaid Periodic Distribution Amounts for such Certificate; and
- (iii) any Additional Dissolution Distribution Amount relating to such Certificate.

Early Dissolution:

The Certificates may be redeemed in full prior to the Scheduled Dissolution Date upon the:

- (i) occurrence of a Dissolution Event; or
- (ii) occurrence of a Total Loss Event.

In the case of paragraph (i), the Certificates will be required to be redeemed in accordance with Condition 10 (*Capital Distributions*) and pursuant to the exercise of the Issuer's rights under the Purchase Undertaking. The Exercise Price payable under the Purchase Undertaking will be required to be used to fund the redemption of the Certificates.

In the case of paragraph (ii) the Certificates will be required to be redeemed in accordance with Condition 10 (*Capital Distributions*).

Dissolution Events:

The Dissolution Events are described in Condition 14 (*Dissolution Events*). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at an amount equal to the Dissolution Distribution Amount in

the manner described in Condition 14 (*Dissolution Events*).

Total Loss Event:

The occurrence of a Total Loss Event will result in the Certificates being required to be redeemed and the consequent termination of the servicing agency arrangements.

In accordance with the terms of the Servicing Agency Agreement, the Servicing Agent will be responsible for ensuring that the Lease Assets are, so long as the Certificates are outstanding, insured to the extent reasonable and commercially practicable, in a manner compliant with the principles of Islamic finance against a Total Loss Event. If a Total Loss Event occurs, the Servicing Agent will be obliged to ensure that all Takaful/Insurance Proceeds in respect thereof (if any) or the Takaful/Insurance Coverage Amount, as the case may be, are paid in U.S. dollars into the Transaction Account by no later than close of business in the Republic on the 30th day after the occurrence of the Total Loss Event.

If a Total Loss Event occurs and an amount (if any) less than the Takaful/Insurance Coverage Amount (as defined in the Conditions) is credited to the Transaction Account (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the Transaction Account being the "**Total Loss Shortfall Amount**"), and unless the Servicing Agent can show (in a final non appealable judgment by a court of competent jurisdiction) that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement, then the Servicing Agent will be required to pay (in U.S. dollars in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than close of business in the Republic on the 31st day after the Total Loss Event has occurred, such that the amount standing to the credit of the Transaction Account on the 31st day following the occurrence of a Total Loss Event represents the aggregate of the insurance proceeds payable in respect of a Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

Rentals shall cease to accrue under the Lease with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment will be required to be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the Transaction

Account.

Negative Pledge:

So long as any Certificate remains outstanding, the Republic will undertake not to create or permit to subsist: (i) any Lien (other than a Permitted Lien) for any purpose upon or with respect to any International Monetary Assets of the Republic; or (ii) 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 unless at the same time or prior thereto, all amounts payable under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement are secured at least equally and rateably with such External Indebtedness.

Asset Substitution:

Pursuant to the Substitution Undertaking, the Republic has the right to require the Issuer to sell, transfer and convey the Issuer's interests, rights, benefits and entitlements in and to certain of the Lease Assets or any part thereof (the "**Substituted Lease Assets**") to the Republic in consideration for the transfer and conveyance by the Republic of certain new real estate assets (the "**New Lease Assets**"). The Republic will be obliged to certify that the value of the New Lease Assets is equal to or greater than the value of the Substituted Lease Assets on the relevant Substitution Date.

In order to effect the substitution, the Issuer and the Republic will undertake to enter into a Transfer Agreement to effect the transfer and conveyance of the Substituted Lease Assets and the New Lease Assets.

Purchase of Certificates held by the Republic:

The Republic may at any time purchase Certificates in the open market or otherwise (the "**Republic Certificates**"). However, for the purposes of, *inter alia*: (i) the right to attend and vote at any meeting of the Certificateholders; (ii) any discretion, power or authority which the Representative is required, expressly or impliedly, to exercise in or by reference to the interests of the Certificateholders; and (iii) the determination by the Representative whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Certificateholders, those Certificates (if any) which are for the time being held directly or indirectly, by or on behalf of the Issuer or the Republic or any public sector instrumentality of the Republic shall (unless and until ceasing to be so held) be deemed not to remain outstanding, as more fully defined in the Representative Agreement.

Transaction Account:

The non interest bearing U.S. dollar denominated account (the "**Transaction Account**") maintained in the name of the Issuer solely in respect of the Certificates with the Principal Paying Agent.

Limited Recourse:

Each Certificate will evidence the entitlement of each Certificateholder, once the Issuer acquires the Lease Certificate Assets, to the economic benefit of the use of the Lease Certificate Assets on a *pro rata* basis. However, the Certificates are not secured and the Certificateholders will have no direct recourse to the Lease Certificate Assets under either Turkish law or English law. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the Lease Certificate Assets. Certificateholders shall have no recourse to the Lease Assets, the Issuer, the Representative, the Seller or the Obligor (to the extent each of them fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the expected amounts from the Lease Certificate Assets to the extent that the Lease Certificate Assets have been extinguished. See "*Risk Factors-Risks relating to the Lease Certificate Assets and limited rights of enforcements.*"

Under no circumstances will the Representative or any Certificateholder be entitled to cause the sale or other disposition of any of the relevant Lease Assets otherwise than to the Republic in accordance with the terms of the Transaction Documents and the sole right of the Representative and the Certificateholders against the Issuer or the Republic shall be to enforce its rights against the Issuer or the Republic in accordance with the Transaction Documents.

Role of the Representative:

Pursuant to the Representative Agreement, the Representative has agreed to act as trustee for itself and the Certificateholders and undertake certain administrative functions in respect of the Certificates and the Transaction Documents. In particular, the Representative shall have the power to determine, in accordance with the Conditions, whether any Dissolution Event or Potential Dissolution Event has occurred. In addition, the Representative shall hold on trust for itself and the Certificateholders the Issuer's covenant to pay all amounts falling due under the Certificates from time to time.

Denomination of Certificates:

The Certificates will be issued in minimum denominations of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof.

Form and Delivery of the Certificates:

The Certificates are: (1) Regulation S Certificates; and (2) Rule 144A Certificates.

The Regulation S Certificates will be represented on issue by beneficial interests in one or more Regulation S Global Certificates, in fully registered form, which will be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and

Clearstream, Luxembourg.

The Rule 144A Certificates will be represented on issue by beneficial interests in one or more Rule 144A Global Certificates in fully registered form, which will be deposited with the custodian for, and registered in the name of a nominee of, DTC.

Ownership interests in the Regulation S Global Certificates and the Rule 144A Global Certificates (together, the "**Global Certificates**") will be subject to certain restrictions on transfer. See "*Transfer Restrictions*." Interests in the Global Certificates will be shown on, and transfers thereof will only be effected through, records maintained by the relevant clearing systems. See "*Global Certificates*" and "*Clearance and Settlement*".

Definitive Certificates evidencing holdings of Certificates may be issued in exchange for interests in the relevant Global Certificates only in certain limited circumstances.

Clearance and Settlement:

Holders of the Certificates must hold their interest in the relevant Global Certificate in book entry form through DTC, Euroclear and/or Clearstream, Luxembourg. Transfers within and between the relevant clearing systems will be in accordance with the usual rules and operating procedures of the relevant clearing systems. See "*Clearance and Settlement*".

Withholding Tax:

All payments in respect of the Certificates will be required to be made free and clear of, and without withholding or deduction for, or on account of, any Taxes imposed in the Republic unless the withholding or deduction of the Taxes is required by law. In the event that any such deduction is made, the Issuer has agreed that it will be required to pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders, subject to the exceptions set out in Condition 11 (*Taxation*).

All payments by the Republic under the Transaction Documents to which it is a party will be required to be made without withholding or deduction for, or on account of, any Taxes imposed in the Republic unless the withholding or deduction of the Taxes is required by law. In the event that any such deduction is made, the Republic will be required to pay to the Issuer additional amounts so that the Issuer will receive the full amount as would have been received by it if no such withholding or deduction had been required.

Use of Proceeds:

The proceeds of the issue of the Certificates will be paid by the Issuer on the Closing Date to the Republic or to its order as the purchase price for

	the Lease Assets pursuant to the Sale Agreement.
	The proceeds received by the Republic will be used by the Republic for general financing purposes, which may include the repayment of debt.
Listing:	Application has been made to the Irish Stock Exchange ("ISE") for the Certificates to be admitted to the Official List and to be admitted to trading on the Main Securities Market.
Certificateholder Meetings:	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (<i>Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination</i>).
Proceeding Against the Republic or the Issuer:	A summary of the limitations on Certificateholders' rights to proceed directly against the Issuer or the Republic is set out in Condition 15 (<i>Enforcement and Exercise of Rights</i>).
Tax Considerations:	See the section entitled " <i>Taxation</i> " for a description of certain tax considerations applicable to the Certificates.
Governing Law:	<p>The Sale Agreement, Lease Agreement, Purchase Undertaking Sale Agreement, Substitution Undertaking, Transfer Agreement and Redemption Sale Agreement, and any non contractual obligations arising out of or in connection with the same, will be governed by, and construed in accordance with, Turkish law.</p> <p>The Representative Agreement, Paying Agency Agreement, the Costs Undertaking Deed, Redemption Undertaking (excluding the Redemption Sale Agreement), Servicing Agency Agreement and Subscription Agreement, and any non contractual obligations arising out of or in connection with the same, will be governed by, and construed in accordance with, English law.</p> <p>The Purchase Undertaking (excluding the Purchase Undertaking Sale Agreement), and any non contractual obligations arising out of or in connection with the same, will be governed by, and construed in accordance with, English law subject to the mandatory provisions of applicable Turkish law in relation to <i>in rem</i> rights in connection with Leased Assets.</p>
Transaction Documents:	The Representative Agreement, Paying Agency Agreement, Costs Undertaking Deed, Sale Agreement, Lease Agreement, Servicing Agency Agreement, Purchase Undertaking, Substitution Undertaking, Redemption Undertaking, the Certificates and any other agreements, deeds,

undertakings or documents designated as such by the parties to the Transaction Documents and the Representative and which can be entered into by the parties from time to time (together the "**Transaction Documents**").

Ratings:

On issuance, the Certificates are expected to be assigned a rating of BBB- by Fitch and Baa3 by Moody's.

A rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to suspension, revision or withdrawal at any time by the assigning rating organisation.

Issuer Covenants:

The Issuer has agreed to certain restrictive covenants as set out in Condition 7 (*Covenants*).

Selling Restrictions:

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning ascribed to them by Regulation S under the Securities Act.

The Certificates may be sold in other jurisdictions (including the United States, the Dubai International Financial Centre, the United Arab Emirates (excluding the Dubai International Financial Centre), the United Kingdom, Malaysia, the Kingdom of Saudi Arabia, the State of Qatar, Singapore, the State of Kuwait, the Kingdom of Bahrain, Hong Kong, Japan and the Sultanate of Oman only in compliance with applicable laws and regulations. See "*Subscription and Sale*" and "*Transfer Restrictions*".

Waiver of Immunity:

The Republic has irrevocably waived, to the fullest extent permitted by applicable law and public policy but subject to the reservations set out below, any immunity from jurisdiction to which it might otherwise be entitled in any proceeding which may be brought in any of the courts with jurisdiction under the relevant Transaction Document, it being understood that under current Turkish law no execution or attachment or any other legal process in the nature thereof can be issued out of any court in the Republic for enforcement of any judgment or order against the Republic. The foregoing waiver constitutes only a limited and specific waiver for the purposes of the Transaction Documents to which the Republic is a party and it is not intended to be, and under no circumstances should be interpreted as, a general waiver by the Republic or a waiver with respect to proceedings unrelated to the Transaction Documents to which

the Republic is a party or the Certificates. In addition, the foregoing excludes a waiver of the Republic's rights to immunity with regards to the following:

- (a) actions brought against the Issuer or the Republic under U.S. federal securities laws or any state securities laws;
- (b) present or future "premises of the missions" as defined in the Vienna Convention on Diplomatic Relations signed in 1961;
- (c) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963;
- (d) any property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere; and
- (e) military property or military assets or property or assets of the Republic related thereto.

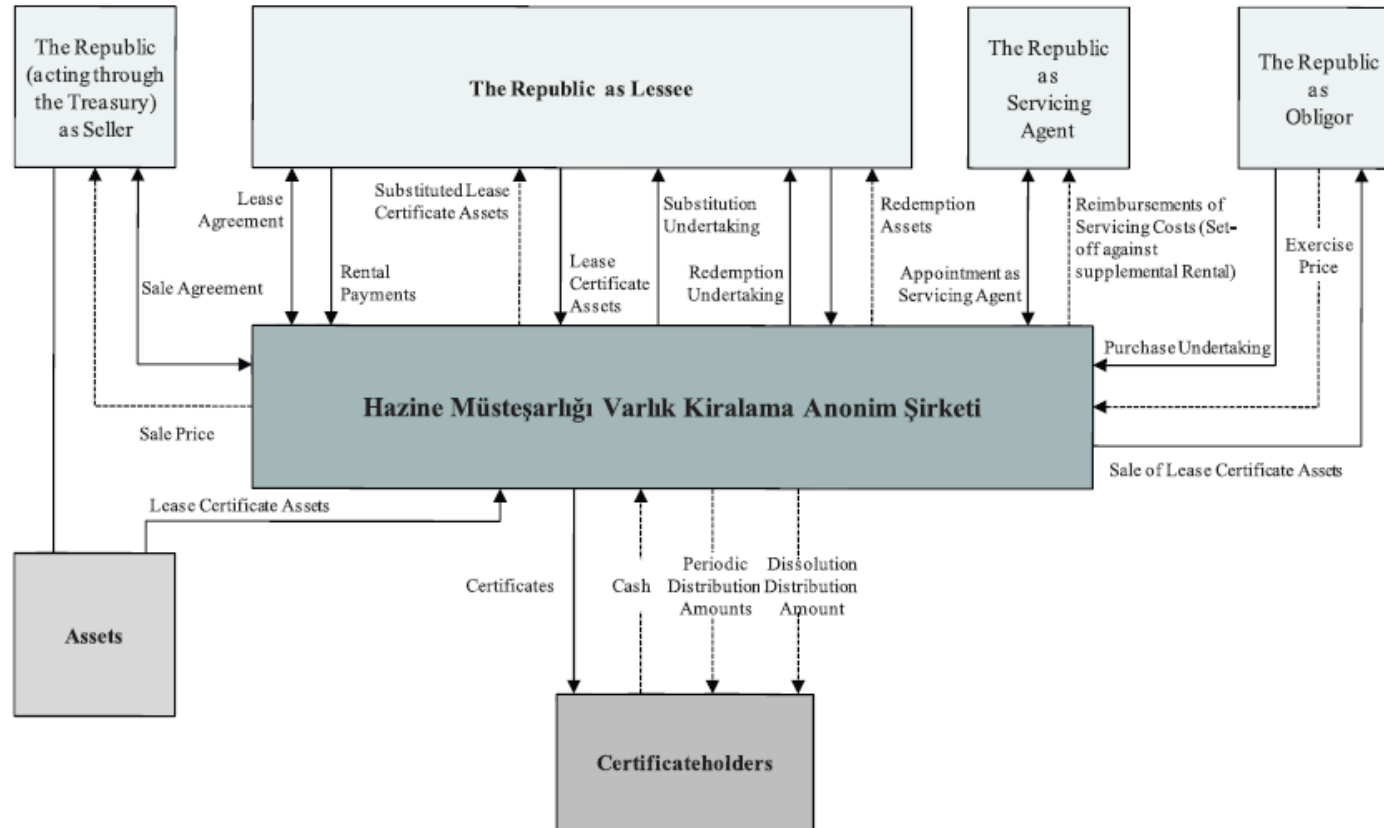
ERISA Considerations:

Plans and other entities subject to ERISA or Section 4975 of the U.S. Tax Code or, subject to certain exceptions, plans subject to similar laws may not acquire Certificates (or any interest in a Certificate). See "*ERISA Considerations*."

Structure Diagram and Cash Flows

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents in this Prospectus for a fuller description of certain cash flows and for an explanation of the meeting of certain capitalized terms used below.

Structure Diagram



Principal Cash Flows

Payments by the Certificateholders and the Issuer

On the Closing Date, the Certificateholders will pay the Issue Price in respect of the Certificates to the Issuer and the Issuer will pay such amount to the Republic or to its order as the purchase price payable under the Sale Agreement for the "Assets" identified in, and pursuant to, the Sale Agreement.

Periodic Payments by the Issuer

On or prior to each Rental Payment Date, the Republic (as lessee) will pay to the Issuer (as lessor) an amount reflecting the rental due in respect of the Lease Assets, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and is required to be applied by the Issuer for that purpose.

Dissolution Payment by the Republic

On the Scheduled Dissolution Date, the Issuer will have the right under the Purchase Undertaking to require the Republic to purchase and accept the transfer and conveyance of all of its interests, rights, benefits and entitlements in and to the Lease Assets. The Exercise Price payable by the Republic to the Issuer for such purpose is intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Certificates may in accordance with the Conditions be redeemed prior to the Scheduled Dissolution Date by reason of redemption where a Dissolution Event (as defined in Condition 14 (*Dissolution Events*)) has occurred and is continuing. In such case, the amounts payable by the Issuer on the Dissolution Date will be required to be funded by the Republic by purchasing the Issuer's interest, rights, benefits and entitlements in and to the Lease Assets and paying the Exercise Price to the Issuer pursuant to the terms of the Purchase Undertaking.

Cancellation of Certificates held by the Republic

In accordance with Condition 13 (*Purchase and Cancellation of Certificates*), the Republic may at any time purchase Certificates at any price in the open market or otherwise.

Where the Republic has purchased Certificates and wishes to cancel those (the "**Republic Certificates**"), the Republic may, provided no Total Loss Event has occurred, deliver a redemption and cancellation notice (the "**Redemption and Cancellation Notice**") to the Issuer (copied to the Principal Paying Agent and the Representative) pursuant to the Redemption Undertaking, obliging the Issuer to purchase and cancel the Republic Certificates. Following such purchase and cancellation of the Republic Certificates, the Issuer and the Republic may sell and purchase, respectively, a proportionate interest in the Lease Assets with a value equal to the face amount of such Republic Certificates (the "**Redemption Lease Assets**"), in which case the redemption and cancellation of the Republic Certificates shall be consideration for such purchase.

RISK FACTORS

An investment in the Certificates involves certain risks and may 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 Certificates. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives, the following factors, in addition to the matters set forth elsewhere in this Prospectus, prior to investing in the Certificates. Prospective investors should make their own inquiries as they deem necessary without relying on the Republic or any Joint Lead Manager and should consult with their financial, tax, legal, accounting and other advisers, prior to deciding whether to make an investment in the Certificates. Each of the Republic and the Issuer believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the Republic and the Issuer may be unable to pay any amounts on or in connection with any Certificate for other reasons and neither the Republic nor the Issuer represents that the statements below regarding the risks of holding any Certificate are exhaustive or that the statements below relate to all risks. There may also be other considerations, including some which may not be presently known to the Republic or the Issuer or which the Republic or the Issuer currently deem immaterial, that may impact on any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this section.

Risks relating to the Issuer

The Issuer was formed in 2012 and has no operating history except in connection with the Prior Certificates. The Issuer is not permitted to engage in any business activity other than the issuance of lease certificates including the Prior Certificates and the Certificates, the acquisition of lease certificate assets including the Lease Certificate Assets and the assets related to the Prior Certificates, and other activities incidental or related to the foregoing or as required under the Transaction Documents.

Other than in respect of the Prior Certificates, the Issuer's only material assets which will be held on its own behalf and for the account and benefit of the Certificateholders, will be the Lease Certificate Assets, including its right to receive payments from the Lessee under the Lease Agreement and payments from the Republic under the Purchase Undertaking. Therefore, the Issuer is subject to all the risks to which the Republic is subject, to the extent that such risks could limit the Republic's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents to which it is a party. Investors should therefore carefully review the description of the Republic in this Prospectus including Annex A (consisting of Exhibit D-2 to the Form 18-K/A).

The ability of the Issuer to pay amounts due on the Certificates will primarily be dependent upon receipt by the Issuer from the Lessee of all amounts due under the Lease Agreement, from the Republic of the Exercise Price under the Purchase Undertaking and payments from the Republic under the Servicing Agency Agreement. In the event of any shortfall in such amounts, the ability of the Issuer to meet its payment obligations under the Certificates may be adversely affected.

Risks relating to the Republic

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

The Republic is a sovereign state. Consequently, the ability of Certificateholders to sue the Republic may be limited.

The Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under United States federal securities laws or any State securities laws. In the absence of a waiver of immunity by the Republic with respect to these actions, it would not be possible to obtain judgment in such an action brought against the Republic in a court in the United States unless the court were to determine that the Republic is not entitled under the Foreign Sovereign Immunities Act to sovereign immunity with respect to such action. Further, even if a United States judgment could be obtained in such an action, it may not be possible to enforce in the Republic a judgment based on such a United States judgment. Execution upon property of the Republic located in the United States to enforce a

United States judgment may not be possible except under the limited circumstances specified in the Foreign Sovereign Immunities Act.

There can be no assurance that the Republic's credit ratings will not change.

Long-term foreign currency debt of the Republic is currently rated BB+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") (which changed the Republic's long-term foreign currency debt rating on 27 March 2013 from BB), Baa3 by Moody's (which changed the Republic's long-term foreign and local currency rating on 16 May 2013 from Ba1) and BBB- by Fitch (which changed the Republic's long-term foreign currency rating on 5 November 2012 from BB+). On 7 February 2014, Standard & Poor's revised its outlook on the long-term debt ratings of the Republic to negative from stable (while affirming the BB+ long-term foreign currency sovereign credit rating), due to perceived increased risks of a hard economic landing in Turkey as external conditions tighten and unfavourable exchange and interest rate dynamics pose downside risks to GDP forecasts, the country's declining reserve coverage of net external financing needs, and the view that Turkey's policy environment is becoming less predictable, and that this could weigh on the economy's resilience and long-term growth potential. On 6 November 2015, Standard & Poor's affirmed the Republic's long-term foreign and local currency ratings at BB+ and BBB-, respectively, each with a negative outlook. Standard & Poor's indicated that the negative outlook incorporates the risks of an alternative scenario in which external financing becomes both more expensive and scarcer, and institutional checks and balances deteriorate further. On 6 May 2016, Standard & Poor's revised the Republic's long-term foreign currency rating outlook from negative to stable noting the resilience of the Turkish economy in the face of global and local threats to the country's stability. On 4 April 2014, Moody's changed the outlook on Turkey's Baa3 government bond rating to negative from stable. Moody's indicated that key drivers of outlook change were: (i) increased pressure on the country's external financing position and ii) growing uncertainty about medium-term growth trend. On 4 December 2015, Moody's affirmed the Republic's long-term foreign and local currency ratings at Baa3, each with a negative outlook. Moody's indicated that the Baa3 government rating reflects the country's economic resilience and strong fiscal metrics, which have been maintained through the long electoral cycle. In particular, Moody's noted that the government's low debt ratio is broadly stable after falling over the past decade, and the debt structure is favourable showing relative resilience to Turkish Lira weakness and forthcoming global interest rate increases. Moreover, Moody's stated that the key drivers for maintaining the negative outlook are: (i) the ongoing risks to the country's external financing capacity as a result of its large external funding needs, exacerbated by the fragility of global capital markets and the elevated geopolitical risks that Turkey is facing; and (ii) the lack of visibility on whether the government will embark decisively on the economic reforms needed to support growth, promote institutional stability and reduce external vulnerability. On 26 February 2016, Fitch affirmed the Republic's long-term foreign and local currency ratings at BBB- and BBB, respectively, each with a stable outlook. Fitch stated that fiscal discipline remained in place in 2015 despite the holding of two closely contested parliamentary elections. Fitch also stated that external vulnerabilities are a key credit weakness. In accordance with EU Regulation 462/2013 ("**CRA3**"), Fitch, Moody's and Standard & Poor's have announced the dates for their respective releases of solicited and unsolicited sovereign credit rating actions with respect to Turkey. Fitch announced its release date as 19 August 2016, Moody's announced its release dates as 8 April 2016, 5 August 2016 and 2 December 2016, and Standard & Poor's announced its release dates as 6 May 2016 and 4 November 2016. 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 Certificates and have the potential to affect the Republic's cost of funds in the international capital markets and the liquidity of and demand for the Republic's debt securities. The Republic's current long-term debt ratings include a sub-investment grade rating from Standard & Poor's. They indicate that the Certificates 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 Certificates.

Risks associated with 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 2000/2001. The Republic's economy was also impacted by the 2008-2009 global financial crisis. If similar conditions recur or if the current global slowdown persists or worsens, this may affect the Republic's economy and financial condition. The Republic 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, the Republic rescheduled an aggregate amount of approximately U.S.\$3.95 billion of its external debt consisting of commercial and government credits, which represented 20.6 per cent. of the Republic's total outstanding external debt at that time. The Republic initiated the rescheduling to avoid a possible default under its external debt. Since that rescheduling, the Republic has always paid, when due, the full amount of principal and interest on its direct and indirect external debt. The Republic completed all payments under the rescheduling in July 1992.

The Republic has been a parliamentary democracy since 1923. Since its formation in 1923, the Republic has had sixty four governments and political disagreements have frequently resulted in early elections. In the Republic's June 2015 national elections, no political party won an overall majority to form a single party government. After the election, attempts to form a coalition failed and on 1 November 2015, a snap election was held. In the November 2015 elections, the Justice and Development Party (the "**AKP**") received 49.50 per cent. of the eligible votes and on 24 November 2015, it formed a single party government.

The Turkish military establishment has historically been an important factor in Turkish government and politics, interfering with civilian authority three times since 1959 (in 1960, 1971 and 1980). Each time, the military withdrew after the election of a new civilian government and the introduction of changes to the legal and political systems.

In late May 2013, demonstrations began in Istanbul's Taksim Gezi Park initially with respect to planned urban development, which were followed by wider protests, demonstrations and strikes in a number of cities. Since these events, the Republic has experienced other forms of civil unrest, including public demonstrations and political protests. In 2015, there were thousands of anti-government demonstrations throughout Turkey, some of which were related to the ongoing conflict in Syria and some related to the conflict between the government and Kurdistan Workers Party ("**PKK**"), a terrorist group. The level of conflict between the Republic and the PKK increased following the end of a two-year cease-fire in July 2015. The violence has continued to escalate resulting in hundreds of civilian as well as military casualties, damage to infrastructure in the southeast region of Turkey, and political conflict with the pro-Kurdish Peoples' Democratic Party ("**HDP**").

On 17 December 2013, a corruption and bribery investigation commenced with the detention and questioning of, among others, the sons of three cabinet ministers. As a result, on 25 December 2013, the Minister of Environment and Urban Planning, the Minister of Economy and the Minister of the Interior resigned. On the same day, Turkish Prime Minister Recep Tayyip Erdogan announced eight new cabinet ministers and reshuffled one cabinet member to a new ministerial position. The investigation stemmed from allegations of illicit gold transfers and bribes paid by certain persons in the construction industry. In addition, in January 2014, the deputy head of the police force, many police chiefs and a large number of other police officers in 15 cities were removed and a large number of other Turkish police officers and a number of prosecutors were reassigned. In December 2013 and January 2014, anti-government demonstrations were held in Istanbul and Ankara. On 28 February 2014, all detainees held as a result of such demonstrations were released. On 17 October 2014, the prosecutor decided not to proceed against 53 graft suspects. The prosecutor pointed to a lack of grounds for legal action against the suspects.

In January 2014, the Government issued a proposal to restructure the Supreme Board of Judges and Prosecutors (the "**HSYK**"), which is the body responsible for appointments in the Turkish judiciary. On 26 February 2014, the President signed a law which gives the Ministry of Justice control with respect to appointing members of the judiciary.

Following the November 2015 elections, the Government started negotiations to form a new constitution, with an aim to replace the existing constitution, which had been enacted after the military coup in 1980. The new constitution may include discussions for a potential change from the current parliamentary system to a presidential model, among other issues. Prospects of a regime change from the parliamentarian system to a presidential or semi-presidential system are not clear. Any negative changes in the political environment of the Republic may affect the stability of the Turkish economy. In addition, any instability in the Turkish economy and financial system may adversely affect the Republic's credit quality. The failure of the Turkish Government to implement its proposed economic and financial policies, including those set forth in the Republic's Economic Reform Agenda and the 2016-2018 Medium Term Program (see "*Recent Developments*" for further information), may also adversely affect the Turkish economy.

Risks associated with significant seismic events.

A significant portion of the Republic's population and most of its economic resources are located in a first-degree earthquake risk zone and the Republic has experienced a large number of earthquakes in recent years, some quite significant in magnitude. For example, in October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing significant property damage and loss of life. In the event of future earthquakes, effects from the direct impact of such events could have a material adverse effect on the Republic's economy.

Volatile international markets and events may have a negative effect on the Turkish economy.

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 securities issued by the Republic, including the Certificates, is uncertain.

The Republic is located in a region which has been subject to ongoing political and security concerns, especially in recent years. These concerns in certain neighboring countries, such as Iran, Iraq, Georgia, Armenia and Syria, have been one of the potential risks associated with investment in securities issued by the Republic. Further, since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Libya, Tunisia, Egypt, Syria, Jordan, Bahrain and Yemen. As a result of the anti-government uprising in Syria, more than 2 million Syrian refugees have fled to the Republic and more can be expected to cross the Turkish-Syrian border if the unrest in Syria continues or escalates. The ongoing conflict in Syria has been the subject of significant international attention and its impact and resolution is difficult to predict. Any continuation or escalation of political instability or international military intervention in Syria and/or a more aggressive stance by Assad's allies, Russia, Iran, and/or China against Turkey and opposition supporters may act as a destabilizing factor for Turkey. The high number of refugees within Turkey's borders and foreign intelligence agents infiltrating both refugee camps and local communities remain current threats. Due to conflict at the Turkish-Syrian border, at the request of the Republic, in 2013, NATO approved the deployment of Patriot anti-missile batteries on the Republic's border with Syria, which were used to protect the Republic's border prior to their removal in the fall of 2015. For additional information, see "*Recent Developments—International Relations*". Unrest in other countries may affect the Republic's relationships with its neighbours, have political implications in the Republic or otherwise have a negative impact on the Republic's economy.

In recent years, the Republic has experienced a number of terrorist incidents. For additional information, see "*Recent Developments—General*". If additional attacks occur in the future, the Republic's capital markets, levels of tourism in the Republic and foreign investment in the Republic, among other things, may suffer.

Political instability and violence in the Middle East has recently intensified. The region has been subject to terrorist acts conducted by DAESH in Syria and Iraq and the ongoing internal conflict in Syria. In June 2014, DAESH and aligned forces began a major offensive in northern Iraq against the Iraqi government, capturing several cities and other territory in this region and oil fields in eastern Syria. In August 2014, the Syrian Observatory for Human Rights reported that DAESH had increased its strength to 50 thousand fighters in Syria and 30 thousand in Iraq. In August and September 2014, a U.S. led coalition began an anti-DAESH aerial campaign in Iraq and Syria. In early October 2014, DAESH besieged the Syrian Kurdish town of Kobani and the Government, to date, has not authorized deployment of its military forces to the Syrian-Turkish border to prevent the city from falling under the control of DAESH. As a result, there has been unrest and protests from Kurdish groups within Turkey. The DAESH's terrorist attack in Suruç on 20 July 2015 and DAESH's targeting Turkey's military border post directly on 23 July 2015, compelled Turkey to initiate military actions against this terrorist organization in Syria. On 24 July 2015, the Turkish Air Force bombed certain DAESH targets in Syria, based on Turkey's right of self-defense in accordance with Article 51 of the UN Charter. The Turkish Air Force also targeted PKK militant camps in northern Iraq. The continuation of the conflict in Syria and/or its further deterioration could have a material negative impact on the Turkish economy.

Regional conflicts, terrorist attacks and the threat of future terrorism have had and could continue to have a material adverse effect on Turkey's capital markets, the level of tourism, foreign investment, exports

and other elements of the Turkish economy. The escalation of political instability in the Middle East could also be a destabilising factor for Turkey and the region as a whole.

In addition, military activities in Ukraine and on its borders, including Russia effectively taking control of Crimea (followed by Crimea's independence vote and absorption by Russia) have combined with Ukraine's very weak economic conditions to create great uncertainty in Ukraine and the global markets. Resolution of Ukraine's political and economic conditions may not occur for some time, and the situation could deteriorate into increased violence and/or economic collapse. While not directly impacting Turkey's territory, the disputes could negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Russian energy supplies.

After Turkey's military downed a Russian warplane near Turkey's border on 24 November 2015, relations between Turkey and Russia have deteriorated. Russia has imposed certain economic sanctions on Turkey. These sanctions have had and may continue to have negative effects on the Turkish economy. See "*Recent Developments—International Considerations — Russia*" for further information.

The above circumstances could have a material adverse effect on the Turkish economy.

Potential refinancing risk.

The Republic has sizeable amounts of domestic and international debt. Central government gross domestic debt stock was approximately TL 485.00 billion and central government gross external debt stock was approximately U.S.\$83.30 billion as of the end of April 2016. Given the relatively short maturity structure of domestic borrowing, any deterioration in financing conditions as a result of market, economic or political factors, which may be outside the Republic's control, may jeopardize the debt dynamics of the Republic.

Potential 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. Due to Government policies intended to combat high levels of inflation, inflation in the Republic has decreased substantially. The Republic's PPI and CPI for the December 2010 — December 2011 period was 13.33 per cent. and 10.45 per cent., respectively, for the December 2011 — December 2012 period was 2.45 per cent. and 6.16 per cent., respectively, for the December 2012 — December 2013 period was 6.97 per cent. and 7.40 per cent., respectively, and for the December 2013 — December 2014 period was 6.36 per cent. and 8.17 per cent., respectively. PPI and CPI figures for the April 2015 — April 2016 period were 2.87 per cent. and 6.57 per cent., respectively.

In the Inflation Report published on 26 January 2016, the Central Bank noted that annual inflation increased in the fourth quarter of 2015 due to the ongoing rise in food prices as well as the lagged effects of the Turkish lira depreciation throughout 2015. The Central Bank stated that the future course of inflation is expected to depend on both the volatility in energy and unprocessed food prices and the effects of global market uncertainty on inflation expectations. In addition, the Central Bank noted that the large adjustment made to net minimum wages for 2016 will have an impact on inflation, and accordingly, inflation is expected to remain elevated for some time. In the Inflation Report published on 26 April 2016, the Central Bank noted that annual inflation experienced a higher-than-expected fall mainly driven by unprocessed food prices. The Central Bank further noted that inflation excluding unprocessed food and tobacco was consistent with the January Inflation Report forecast. The Central Bank stated that in this period, effects of the cumulative depreciation in the Turkish lira on annual inflation continued to diminish and import prices remained low, leading to a limited decline in annual inflation in core goods and energy groups. The Central Bank recognised, on the other hand, that adjustments to administered prices, high levels of inflation expectations and wage developments limited the fall in inflation.

These factors could continue to have an effect on inflation in the future. In addition, any significant depreciation of the Turkish Lira may negatively affect efforts by the Turkish government to combat inflation. Strong domestic demand and an increase in global economic activity may influence commodity prices and external demand could cause an increase in inflation. Moreover, the exchange rate pass-through effect has had, and in the future may have, a negative impact on the price of imports, contributing to inflation. There can be no assurance that inflation will not increase in the near future.

Risks associated with the Republic's current account deficit.

The Republic's current account deficit ("CAD") has widened considerably in recent years mainly due to the widening trade deficit. The CAD increased from U.S.\$45.3 billion (6.5 per cent. of GDP) in 2010 to U.S.\$75.0 billion (9.7 per cent. of GDP) in 2011, but decreased to U.S.\$48.5 billion (6.2 per cent. of GDP) in 2012. In 2013, the CAD increased to U.S.\$64.7 billion (7.9 per cent. of GDP), then decreased to \$46.5 billion (5.7 per cent. of GDP) in 2014. In the period from January to December 2015, the Republic had a CAD of U.S.\$32.1 billion, compared to a deficit of U.S.\$43.6 billion in the same period of 2014.

A widening CAD may result in an increase in the levels of borrowing by the Republic, a decline in the Central Bank's reserves to finance the CAD and/or depreciation of the Turkish Lira. A widening CAD may also affect the capacity of the Republic's economy to generate foreign currency assets sufficient to cover liabilities arising from external debt. Any of these events could have a material adverse effect on the financial and economic condition of the Republic..

Risks associated with the foreign exchange rate of the Republic's currency.

The depreciation of the Turkish Lira against the U.S. dollar or other major currencies might adversely affect the financial condition of the Republic, such as through potential unhedged foreign currency positions of Turkish banks and the deterioration of bank asset quality. The corporate sector may also be susceptible to additional foreign exchange risk as a volume of corporate loans is denominated in foreign currencies, resulting in additional risk if the Turkish Lira depreciates and such borrowers may not have sufficient foreign currency reserves or adequate hedging, particularly if such changes are compounded by macroeconomic factors that particularly impact certain sectors or clients (such as the potential combined impact of Turkish Lira depreciation and global oil price reductions on the energy sector). An exchange rate shock could have negative implications for the Turkish banking sector, the main lenders of corporate debt, as well as the credit quality of corporates. In addition, depreciation of the Turkish Lira may increase the price of imported goods, which may increase the trade deficit and the CAD.

Any significant depreciation of the 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. Due to market volatility, the Turkish Lira has fluctuated, appreciating or depreciating to TL 1.5376 per U.S. dollar at 31 December 2010, TL 1.8889 per U.S. dollar at 30 December 2011, TL 1.7776 per U.S. dollar at 31 December 2012, TL 2.1304 per U.S. dollar at 31 December 2013 and TL 2.3269 per U.S. dollar at 31 December 2014. As of 23 May 2016, the exchange rate was TL 2.9880 per U.S. dollar. The depreciation of the Turkish Lira against the U.S. dollar has led to an increase in the share of dollar deposits in total deposits in the Turkish banking system. A further increase in this ratio could decrease the effectiveness of the Republic's domestic monetary policy. From time to time, the Turkish Lira may be subject to increased volatility. For example, in connection with the announcement of increases in short-term interest rates by the MPC on 28 January 2014, the MPC noted that recent domestic and external developments were having an adverse impact on risk perceptions, leading to a significant depreciation in the Turkish lira and a pronounced increase in the risk premium.

Risks associated with delays or other adverse developments in the Republic's accession to the European Union may have a negative impact on the Republic's economic performance and credit ratings.

The Republic commenced negotiations on its accession to the EU on 3 October 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 the Republic 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. The EU decided in 2006 to suspend negotiations in eight out of 35 parts, or "chapters", and not to "close" the other 27 chapters, of the Republic's accession negotiations because of the Republic's restrictions with respect to the Greek Cypriot Administration. Moreover, during the EU General Affairs Council meeting of 8 December 2009, Greek Cypriots declared that "normalization" of relations is a precondition for progress in 6 chapters. As a result, 14 chapters have been blocked. Delays or other adverse developments in the Republic's accession to the EU may have a negative effect on the Republic's economic performance and credit ratings.

On 14 December 2015, Chapter 17-Economic and Monetary Policy was opened to negotiations, resulting in a total of 15 chapters opened to negotiations including one that is provisionally closed.

Risks associated with pending arbitration proceedings.

Several claimants have filed claims against the Republic ranging in amounts from U.S.\$750 million to U.S.\$10 billion before the International Center for the Settlement of Investment Disputes or under the United Nations Commission on International Trade Arbitration Rules alleging either that: (a) they have been harmed because the takeover of banks by the Savings Deposit Insurance Fund indirectly impaired their investments in companies affiliated with these banks or their shareholders, without adequate compensation; or (b) they have been indirectly harmed because the Republic cancelled certain contracts with companies in which they allege they held investments. While the Republic does not believe that such proceedings will in aggregate have a material adverse impact on the Republic, the outcome of these arbitration proceedings is uncertain.

The Republic's economy remains vulnerable to external shocks, such as those that could be caused by future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have an adverse effect on the Republic's economic growth and its ability to service its public debt.

Emerging market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments. Foreign direct equity investments in the Republic, in particular, are vulnerable to changes in investor appetite due to political uncertainty and the overall retrenchment from emerging markets.

The Republic's economy also remains vulnerable to external shocks, including turmoil in the markets for sovereign and other debt, foreign currencies and equities. If there is a significant decline in the economic growth of any of the Republic's major trading partners, such as the European Union, or any euro area member experiences difficulties issuing securities in the sovereign debt market or servicing existing debt or ceases to use the euro as its national currency, it could have a material adverse impact on the Republic's balance of trade and adversely affect the Republic's economic growth. The European Union, particularly Germany, is the Republic's largest export market. A decline in demand for imports from any member of the European Union could have a material adverse effect on Turkish exports and the Republic's economic growth. Furthermore, the Republic's economy is vulnerable to external events that increase global risk aversion, which could include such events as U.S. Federal Reserve interest rate decisions. In December 2015, the U.S. Federal Reserve voted to increase the target federal funds rate range to 0.25 per cent.-0.5 per cent. The continuation of such increases in global interest rates may result in the reduction of external financing to Turkish banks and corporate entities, volatility in capital outflows, adverse fluctuations in currency markets, a suppression of demand and market volatility. A reversal of accommodative monetary policies in developed economies or other events may also cause capital outflows from emerging economies and generate a negative impact on emerging economies, such as Turkey.

In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, the Republic could be adversely affected by negative economic or financial developments in other emerging market countries. The Republic has been adversely affected by such contagion effects on a number of occasions, including following the two financial crises in 1994 and 2000/2001 and the recent global economic crisis. Recent volatility in the markets stemming from concerns over China's economic growth may adversely impact economic growth in other emerging economies with close trade links with China. Although China is not a major trading partner of the Republic, no assurance can be given that these developments will not have a negative effect on the financial condition of the Republic. In addition, similar developments can be expected to affect the Turkish economy in the future.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets, the economies of the principal countries in Europe or the Republic. In addition, there can be no assurance that these events will not adversely affect the Republic's economy and its ability to raise capital in the external debt markets in the future.

Risks relating to the Certificates

There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders.

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate, and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. An application has been made for the listing of the Certificates on the Official List of the ISE but there can be no assurance that any such listing will occur on or prior to the date of this Prospectus or at all, if it does occur, that it will enhance the liquidity of the Certificates.

The Certificates may be subject to restrictions on transfer which may adversely affect the value of the Certificates.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Certificates may not be offered or sold within the United States or to, or for the account of, U.S. persons, except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Similar restrictions may apply in other jurisdictions. In addition, the Issuer has not been and will not be registered as an "investment company" under the Investment Company Act. The Certificates and the Paying Agency Agreement will contain provisions that will restrict the Certificates from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other specified exceptions, under the Securities Act. Furthermore, the Issuer has not registered the Certificates under any other country's securities laws. Investors must ensure that their offers and sales of the Certificates within the United States and other countries comply with applicable securities laws. See "Transfer Restrictions".

The ratings on the Certificates may be changed at any time and may adversely affect the market value of the Certificates.

On issuance, the Certificates are expected to be assigned a rating of BBB- by Fitch and Baa3 by Moody's. A credit rating may not reflect all risks. The ratings may not reflect the potential effect of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities (including the Certificates), and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU registered credit rating agency or the relevant non EU rating agency is certified in accordance with the CRA regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list.

The Transaction Documents may be modified without the consent of or notice to Certificateholders.

The Conditions of the Certificates contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Certificateholders, whether or not they are present at the meeting and whether or not voting. The

Conditions and the Representative Agreement contain provisions permitting the Representative from time to time and at any time without any consent or sanction of the Certificateholders to make any modification of, or agree to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Representative Agreement or of any other Transaction Document, or determine, without any such consent as aforesaid, that any Dissolution Event shall not be treated as such, if, in the opinion of the Representative: (a) such modification is of a formal, minor or technical nature; (b) such modification is made to correct a manifest error; or (c) such modification, waiver, authorisation or determination is not materially prejudicial to the interests of Certificateholders. Unless the Representative otherwise decides, any such modification shall as soon as practicable thereafter be notified by the Issuer (or the Republic on its behalf) to the Certificateholders and shall in any event be binding upon the Certificateholders.

Certificateholders will have limited rights to proceed directly against the Issuer or the Republic.

The Certificateholders shall have no recourse against the Lease Certificate Assets or the Issuer other than in respect of the proceeds of the Lease Certificate Assets in accordance with the Transaction Documents. The sole right of the Certificateholders against the Lease Certificate Assets shall be the right to have the Representative enforce the respective obligations of the Issuer and the Republic under the Transaction Documents.

Certificateholders have no recourse to any other assets of the Issuer or the Republic or the Representative any agent or any of their respective affiliates in respect of any shortfall in the expected amounts from the Lease Certificate Assets to the extent the Lease Certificate Assets have been enforced, realised and fully discharged following which all obligations of the Issuer shall be extinguished.

The Representative will not be bound in any circumstances to take any action to enforce the Lease Certificate Assets or take any action against the Issuer or the Republic under any Transaction Document unless directed or requested to do so: (a) by a resolution passed at a meeting of the Certificateholders duly convened and held in accordance with the Representative Agreement by a majority consisting of at least 66⅔ per cent. of the votes cast; or (b) in writing by Certificateholders of at least 66⅔ per cent. of the then outstanding aggregate face amount of the Certificates and in either case then only if the Representative is indemnified and/or secured and/or prefunded to its satisfaction by the Certificateholders. In addition, no Certificateholder will be entitled to proceed directly against the Issuer or the Republic unless: (a) the Representative, having become bound so to proceed, fails to do so within thirty (30) Business Days of becoming so bound and such failure is continuing; and (b) such Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Issuer or the Republic, as the case may be) holds at least 66⅔ per cent. of the then outstanding aggregate face amount of the Certificates.

The trading market for the Certificates may be volatile and may be adversely impacted by many events.

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

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. Prospective investors should consult their legal advisers to determine whether and to what extent: (1) the Certificates are legal investments for such prospective investors; (2) the Certificates can be used as collateral for various types of borrowing; and (3) other restrictions apply to their purchase or pledge of any Certificates. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk based capital or similar rules.

Risks relating to the Lease Certificate Assets and limited rights of enforcement

Liability attaching to owners of Lease Certificate Assets.

In order to comply with the requirements and principles of Islamic finance, the proceeds of issuance of the Certificates are required to be applied by the Issuer towards the acquisition of Lease Certificate Assets and, pursuant to Article 7/A of Law Number 4749 and the Ministerial Decisions, once the Issuer acquires the Lease Certificate Assets, the Certificateholders will have the right to receive from the Issuer the economic benefit of the use of the Lease Certificate Assets. The Issuer is required to hold its interests in the Lease Certificate Assets in its own name and on its own behalf and for the account and benefit of the Certificateholders. Each Certificate will evidence the entitlement of each Certificateholder to a right to receive the economic benefit of the use of the Lease Certificate Assets on a *pro rata* basis in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates, unless transfer of such interests and rights in and to the Lease Certificate Assets is prohibited by, or ineffective under, any Turkish law that may be applicable (see "*Transfer of the Lease Assets*" below). However, the Certificateholders will have no direct recourse to the Lease Assets under Turkish law. The income accruing to the Issuer from such purchased Lease Certificate Assets together with any capital arising from disposal of such Lease Certificate Assets will be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Lease Asset. Only limited representations will be obtained from the Republic in respect of the Lease Assets. In addition, if and to the extent that a third party is able to establish a direct claim against the Issuer, the Representative or any Certificateholders on the basis of a legal or other interest in the Lease Assets, the Republic has agreed in the Representative Agreement to indemnify the Issuer, the Representative and the Certificateholders against any such liabilities. In the event that the Republic is unable to meet any such claims then the Certificateholders may suffer losses in respect of both the face amount invested in the Certificates, as well as any profit amounts that would have been payable in respect of the Certificates.

In addition, under the Transaction Documents and in accordance with applicable *Shari'a* principles, each party will not claim judgment interest under, or in connection with, any dispute under any of the Transaction Documents; and to the fullest extent permitted by law, will waive all and any entitlement it may have to judgment interest awarded in its favour by any court as a result of such dispute.

Transfer of the Lease Assets.

In the event that the transfer to the Issuer of specified interests and rights in and to the Lease Assets is for any reason found to have been, or is alleged to have been, ineffective so that the Issuer is unable to deliver such interests and rights (or part thereof) to the Republic in accordance with the terms of the Purchase Undertaking, the Republic has agreed in the Purchase Undertaking to fully indemnify the Issuer. However, given the Certificateholders will not have any rights of enforcement as against the Lease Assets and their rights are limited to the proceeds of enforcement against the Republic of its obligation to indemnify the Issuer pursuant to the terms of the Purchase Undertaking, the effectiveness of any transfer of any interests and rights in and to the Lease Assets to the Issuer is likely to be of limited consequence to the rights of the Certificateholders.

In the event that the Lease Assets are not repurchased by the Republic for any reason, the Representative will seek to enforce the payment and indemnity obligations of the Republic under the Purchase Undertaking. To the extent that it obtains a foreign judgment in its favour, it may seek to enforce that judgment or award in a court in the Republic. This will be subject to general enforcement risks in the Republic (see "*Risk Factors—Risks relating to the Republic—The Republic is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it.*").

Certificateholders may be adversely affected by a Total Loss Event despite the Issuer's obligation to adequately insure the Lease Assets.

Pursuant to the Lease Agreement, the Issuer is required, among other things, to insure the Lease Assets. The Issuer has given a representation as to this obligation to the Republic, as its servicing agent, and the Republic has undertaken in the Servicing Agency Agreement, *inter alia*, to insure the Lease Assets in the name of the Issuer against the occurrence of a Total Loss Event at their full reinstatement value. The

Servicing Agent may delegate its obligations under the Servicing Agency Agreement to the relevant government ministry which has been allocated the use of a specific asset from the Lease Assets. It is not required that the insurances for the Lease Assets are entered into with third parties and the Republic will be permitted to self insure the Lease Assets. A **"Total Loss Event"** is defined as the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and the repair or remedial work in respect thereof is wholly uneconomical (but only after taking into consideration any Takaful/Insurances or other indemnity granted by any third party in respect of the Lease Assets) and certain other events described herein. See Condition 10 (*Capital Distributions*).

Nevertheless, should such an event occur, the Lease Agreement will be required to terminate and the Certificates will be required to be repaid using the Takaful/Insurance Proceeds and the proceeds from any Self-Insurance (as defined in the Conditions) received by the Issuer. In connection with such termination, potential investors should be aware that: (i) rental under the Lease Agreement will cease automatically upon the occurrence of a Total Loss Event and accordingly the Periodic Distribution Amount received by Certificateholders will reflect this fact; and (ii) there may be a delay in the Issuer receiving the Takaful/Insurance Proceeds (or shortfall amounts from the Servicing Agent) and therefore in Certificateholders receiving the full Dissolution Distribution Amount in respect of their Certificates, and no additional Periodic Distribution Amount will be paid in respect of this delay. In connection with this, the Servicing Agency Agreement provides that if sufficient Takaful/Insurance Proceeds or the Takaful/Insurance Coverage Amount, as the case may be, are not paid into the Transaction Account within 30 days of the occurrence of the Total Loss Event, the Republic, as Servicing Agent, has failed in its responsibility to properly insure the Lease Assets and accordingly, the Republic will be required to pay any shortfall directly to the Transaction Account within 31 days of the occurrence of the Total Loss Event, unless the Servicing Agent can show (in a final non appealable judgment by a court of competent jurisdiction) that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement. The Representative will be entitled to enforce this undertaking against the Republic on behalf of the Certificateholders.

Certificateholders will be reliant on DTC, Euroclear and/or Clearstream, Luxembourg procedures to exercise certain rights under the Certificates.

The Certificates will be represented on issue by one or more Global Certificates that will be deposited with a nominee for DTC or will be deposited with a common depository for Euroclear and Clearstream, Luxembourg (see "*Global Certificates*" and "*Clearance and Settlement*"). Except in the limited circumstances described in the Global Certificates, investors will not be entitled to receive Certificates in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants will maintain records of the beneficial interests in the Global Certificates. While the Certificates are represented by the Global Certificates, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Certificates are represented by the Global Certificates, the Issuer will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in a Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

There is no assurance that the Certificates will be compliant with the principles of Islamic finance.

The advisers to the Joint Lead Managers on the principles of Islamic finance on the transaction have confirmed that the Certificates are compliant with the principles of Islamic finance as of their date of issue. However, there can be no assurance that the transaction structure or issue and trading of the Certificates will be deemed to be compliant with the principles of Islamic finance by any other Islamic finance advisory board or scholars on the principles of Islamic finance and their application. None of the Issuer, the Republic, the Joint Lead Managers, the Representative or the Agents makes any representation as to the compliance with the principles of Islamic finance of the Certificates and potential investors are

reminded that, as with any views on Islamic finance, differences in opinion are possible. Potential investors should obtain their own independent Islamic finance advice as to the compliance of the structure and the issue and trading of the Certificates with the principles of Islamic finance.

RECENT DEVELOPMENTS

The information included in this section modifies the information about the Republic contained in Exhibit D-2 to the Form 18-K/A, as amended from time to time. To the extent the information in this section is inconsistent with the information contained in Exhibit D-2 to the Form 18-K/A, as amended from time to time, the information in this section supersedes and replaces such information. Capitalised terms not defined in this section have the meanings ascribed to them in Exhibit D-2 to the Form 18-K/A.

GENERAL

The Republic's economy was impacted by the 2008-2009 global financial crisis but has been recovering from the crisis since the last quarter of 2009. The Republic's GDP increased by 4.0 per cent. in 2015. See "— *Economic Developments*".

From 21 April 2016 to 23 May 2016, the Istanbul Stock Exchange National 100 Index (since 5 April 2013 the Istanbul Stock Exchange has carried out its operations under the title of "Borsa Istanbul") decreased by 10.39 per cent.

On 13 May 2014, an explosion at a coal mine in Soma, Manisa, caused an underground mine fire. 301 people died in that disaster. Following the incident, an investigation was initiated and 24 people were taken into custody. On 10 November 2014, the indictment of the case was presented to the court by the chief public prosecutor. The indictment has been rejected by the court on four grounds, including lack of testimony, lack of evidence, violation of the principle of individual criminal responsibility and submission of charges without including the necessary technical details. On 7 March 2015, the court approved a revised bill of indictment implicating 45 people in connection with the mining incident. The lawsuit is ongoing.

On 14 December 2014, Turkish authorities made over two dozen arrests of media representatives during raids of a newspaper and TV station with close ties to the US-based Islamic cleric Fethullah Gulen, the spiritual leader of the Gulen movement, an opposition movement in Turkey. The arrests were made on charges of forgery, fabricating evidence and forming an illegal organization to oppose the state. On 14 December 2014, European Union officials Federica Mogherini and Johannes Hahn issued a joint statement stating that such actions were incompatible with the freedom of media, which is a core principle of democracy. On 15 December 2014, Turkish President Recep Tayyip Erdogan issued a statement that such steps were necessary and within the rule of law against elements that threaten national security. Following the arrests, several detainees have been released with the remaining subject to further interrogation. On 19 December 2014, the 1st Istanbul Penal Court of Peace issued an arrest warrant for Fethullah Gulen. On February 24, 2015, an Istanbul Court issued a second arrest warrant for him. On 17 September 2015, a Turkish prosecutor sought a jail sentence for Fethullah Gulen of up to 34 years. On 19 October 2015, Istanbul's High Penal Court issued an arrest warrant for Gulen and Sinan Dursun for "attempting to stage a coup, establishing and masterminding an armed organization and political espionage". On 9 November 2015, the Istanbul 14th Criminal Court ordered the arrests of Fethullah Gulen and former police officer Emre Uslu over illegal wiretapping, along with 112 suspects. On 28 December 2015, another arrest warrant was issued for Gulen, along with 60 suspects.

In 2015, there were a series of raids against opposition media outlets and Gulen -associated businesses throughout Turkey. For example, in January 2015, several policemen were arrested for illegal wiretapping and political spying charges. On 1 September 2015, Turkish police raided the Ankara-based offices of a media group affiliated with Fethullah Gulen. Six people were arrested and a warrant was issued for the conglomerate's chief executive, Akin Ipek. On 16 September 2015, Turkish police issued warrants against eleven executives on charges of organized theft. The arrests took place in the central city of Kayseri, where police raided a university with alleged links to Fethullah Gulen. On 26 October 2015, an Ankara court appointed administrators to take control of Koza İpek Holding, which the Ankara Chief Public Prosecutor's Office identified as a Gulen-associated business. On 23 March 2016, a court in Istanbul appointed trustees to run the Feza media group, which owns the Zaman Daily and Cihan News Agency. The court accused the Feza media group of supporting the movement of Fethullah Gulen.

On 27 March 2015, the Assembly approved the new domestic security law (Law No. 6638). Law No. 6638 was published in the Official Gazette on 4 April 2015 (No. 29316). The new law expands the

powers of the Turkish police and increases penalties for people participating in unauthorized demonstrations.

On 20 May 2016, Turkey's legislature voted to lift the immunity of 138 deputies from all parties, including 46 of the 59 deputies of the Kurdish People's Democratic Party, who face potential prosecution on allegations such as supporting terrorism. The bill is subject to approval by President Erdogan.

In recent years, the Republic has experienced a number of terror-related incidents. On 6 January 2015, a police station in Istanbul was bombed. In June 2015, four people died and over 400 were injured after two explosions hit the city of Diyarbakir during a pro-Kurdish HDP election rally.

After DAESH's (a synonym for the Islamic State terrorist group) terrorist attack in Suruç on 20 July 2015, and DAESH's targeting of Turkey's military border post directly on 23 July 2015, Turkey initiated military actions against this terrorist organization in Syria. On 24 July 2015, the Turkish Air Force bombed certain DAESH targets in Syria, based on Turkey's right of self-defense in accordance with Article 51 of the UN Charter.

On 10 October 2015, two bombs exploded in Ankara during a peace rally killing nearly 100 individuals and wounding over 200 others. On 28 October 2015, the Ankara Chief Public Prosecutor's office said a DAESH cell from Gaziantep, a province in southern Turkey that borders Syria, carried out the bombing. On 12 January 2016, a bombing in Istanbul killed at least 11 individuals including the bomber, a suspected DAESH activist based in Syria. More than a dozen other individuals were wounded in the attack. Following the suicide bombing, Turkish artillery attacked DAESH positions in Syria and Iraq, killing around 200 fighters within 48 hours. On 19 March 2016, a suicide bomb attack in İstiklal Street, Istanbul's main shopping street, killed 4 people and injured 39 others. Two Israelis with dual US nationality and an Iranian were killed in the blast.

In late July 2015, the terrorist group PKK declared an end to a two-year cease fire. Since July 2015, several Turkish soldiers and policemen have been killed by the PKK, and Turkish security forces have carried out operations against the terrorist group in Turkey and northern Iraq. The violence has continued to escalate resulting in hundreds of civilian as well as military casualties, and damage to infrastructure in the southeast region of Turkey. Since July 2015, there have also been airstrikes against PKK targets. In October 2015, Turkish aircraft bombed PKK targets overnight in Turkey and northern Iraq. The Turkish Government has stated that PKK militants must relinquish their weapons and return to their camps in northern Iraq before it will halt operations and restart peace talks. On 17 February 2016, PKK-affiliated terrorists exploded a car bomb in the Turkish capital near military vehicles carrying personnel, killing 29 people and injuring at least 60 other individuals. On 13 March 2016, another car bomb attack in Ankara's central Kızılay neighborhood hit a major public transportation hub, killing 37 people and injuring dozens of others. The Interior Ministry has identified the 24-year-old female bomber who had joined the PKK terrorist group in 2013 and received training with the YPG People's Protection Units in Syria. On 4 April 2016, Turkish Armed Forces carried out airstrikes on PKK terrorist bases in northern Iraq. On 27 April 2016, a suicide bomber detonated an explosive in the northwestern Turkish city of Bursa. On 2 May 2016, the Minister of Interior Ertan Ala announced the identity of the suicide bomber to be a member of the PKK.

On 14 December 2015, Special Forces from the Turkish National Police and Turkish Armed Forces commenced a joint counter-terror operation against PKK members located and active in a number of southeastern Turkish towns. On 11 February 2016, the counter-terror operation in Cizre town ended. According to figures released by Turkish Armed Forces, 619 PKK members were killed in Cizre during the nearly two month long operation. On 9 March 2016, anti-terror operations launched against the PKK in the southeastern Sur district of Diyarbakır province ended. According to a statement released by the Turkish General Staff, 264 terrorists were killed and 345 explosive devices were defused in Sur since the operation began. On 14 March 2016, counter-terrorism operations were launched in the Nusaybin district of Turkey's southeastern province of Mardin. According to a statement from Mardin Governorate, as of 23 May 2016, 403 PKK terrorists were neutralized, 387 barricades were removed, and 992 handmade explosives destroyed since the launch of operations. On 15 January 2016, Turkish security forces detained 27 academics on charges of conducting terror propaganda. All of the detained academics were released after questioning. On 15 March 2016, three academics were arrested in Istanbul on charges of making terrorist propaganda.

The Republic is continuing its humanitarian efforts to provide shelter to refugees fleeing the conflict in Syria. As of 23 May 2016, 261,467 Syrian refugees occupied accommodation centers throughout Turkey. As of December 2015, the Republic has spent more than U.S.\$8 billion for Syrian refugees in Turkey.

On 6 October 2015, a draft action plan was published reflecting an agreement between the EU and the Republic to cooperate on support of refugees and migration management to address the unprecedented refugee crisis created by the situation in Syria and Iraq (the "**Action Plan**"). The Action Plan identifies collaborative actions to be implemented as a matter of urgency by the EU and the Republic with the objective to assist the Republic in managing the massive influx of refugees and preventing uncontrolled migratory flows from Turkey to the EU. The Action Plan contemplates immediate implementation to be jointly steered and monitored by the European Commission and the High Representative / Vice President and the Republic through the establishment of the EU-Turkey high-level dialogue on migration. On 29 November 2015, the leaders of the European Union met in Brussels with their Turkish counterparts. In this meeting, the European Union declared that it is committed to provide an initial 3 billion euro of resources to Turkey for Syrian refugees. On 18 March 2016, the EU agreed on a wide range of proposals with Turkey to manage the migration crisis, including the return of all irregular migrants, accelerating the visa-liberalization process for Turkish citizens and sharing the work of hosting Syrian refugees. According to the agreement, the EU will allocate €6 billion (U.S.\$6.6 billion) for reducing illegal migration and making passage to Europe safe. On 4 April 2016 the agreement went into effect and the first group of Syrian refugees arrived in Germany from Istanbul while the first group of migrants, including Syrian refugees, returned to Turkey from Greece.

On 10 December 2015, the Republic announced a structural reform agenda to be completed by January 2017 (the "**Economic Reform Agenda**"). The main objectives of the structural reform agenda are reaching a high income level with strong and sustainable growth and 'Inclusive Growth' which will enable all parts of society to benefit from strong and sustainable growth.

Turkey became a member of the G20 troika (past, current and future hosts) on 1 December 2013, and its presidency of the G20 commenced on 1 December 2014. Turkey, as President of the G20, hosted the meeting of the G20 Ministers of Agriculture on 6-8 May 2015, in İstanbul. This was the first time G20 Agriculture Ministers had convened since 2011. The G20 Agriculture Ministers expressed their strong support of global efforts to ensure food security and agreed on the importance of establishing economically, socially and environmentally sustainable food systems. The G20 Labor and Employment Ministers Meeting was held on 3-4 September 2015, in Ankara. By adopting the G20 Labor and Employment Ministerial Declaration, the G20 Labor Ministers agreed upon a target to reduce the share of young people who are at most risk of being permanently left behind in the labor market by 15 per cent. by 2025. The first G20 Energy Ministers Meeting in the history of the G20 was held in İstanbul on 2 October 2015, focusing on issues relating to development and access in particular. The G20 Leaders' Summit was held on 15-16 November 2015, in Antalya. After the conclusion of its term as the G20 President, Turkey passed the presidency over to China on 1 December 2015.

A team from the International Monetary Fund (the "**IMF**") visited the Republic between 20 January 2016 and 1 February 2016 for the annual evaluation of the economy as part of the regular consultations under Article IV of the IMF's Articles of Agreement. The IMF periodically consults with each member state in order to ensure that each member state has in place a sound macroeconomic framework and corresponding policies to promote financial stability, economic growth and free exchange rates. On 2 February 2016, the IMF published a concluding statement exploring its preliminary findings. In its statement, the mission highlighted that a tighter monetary policy stance is needed to bring inflation back to the 5 per cent. target in the medium-term. The IMF also emphasized that a tighter fiscal stance would contribute to reducing external imbalances and lowering inflation. On 25 March 2016, the Executive Board of the IMF concluded the Article IV consultation with Turkey. Executive Directors of the IMF remarked on the Turkish economy's resilient growth notwithstanding shocks in 2015. At the same time, they noted that high inflation, external imbalances, and dependence on external financing pose vulnerabilities. They, therefore, underscored the need to rebalance the economy through macroeconomic policies and structural reforms aimed at increasing domestic savings and raising potential growth.

POLITICAL CONDITIONS

The latest general elections were held on 1 November 2015. The AKP, the CHP, the MHP and the HDP received 49.50 per cent., 25.32 per cent., 11.90 per cent. and 10.76 per cent. of the votes, respectively. After the elections, on 24 November 2015, the AKP formed a single party government.

On 5 May 2016, the Republic's former Prime Minister Mr. Ahmet Davutoğlu announced his resignation. On 22 May 2016, the ruling Justice and Development Party held an extraordinary congress and elected Mr. Binali Yıldırım as its new chairman and therefore, as Prime Minister of the Republic. On the same day, President Mr. Recep Tayyip Erdoğan accepted the resignation of Prime Minister Ahmet Davutoglu and his cabinet. On 24 May 2016, Mr. Yıldırım formed the 65th Turkish government.

Following the election of Prime Minister Binali Yildirim in May 2016, the Government has indicated that it will focus on revising the constitution and newly elected Prime Minister Binali Yildirim has indicated that he is supportive of a presidential model.

On 24 May 2016, Prime Minister Binali Yildirim announced members of the new cabinet, including 9 new ministers and 4 re-seated ministers. Deputy Prime Minister in charge of Economic and Financial Affairs Mr. Mehmet Şimşek and Minister of Finance Mr. Naci Ağbal retained their posts.

The following table sets forth the composition of the Assembly by total number of seats as of 24 May 2016:

	Number of Seats
Justice and Development Party (AKP).....	317
Republican People's Party (CHP).....	133
People's Democratic Party (HDP).....	59
Nationalist Action Party (MHP).....	40
Independent	1
Total	550

Source: The Grand National Assembly of Turkey

Following the November 2015 elections, the Government started negotiations to form a new constitution with an aim to replace the existing constitution, which was enacted after the military coup in 1980, with a more democratic one.

INTERNATIONAL RELATIONS

On 6 May 2015, Turkey became an Associate Member of the CERN, the European Organization for Nuclear Research.

On 18 June 2015, the Minister of Energy of Russia Alexander Novak and the Minister of Productive Reconstruction, Environment and Energy of Greece Panagiotis Lafazanis signed a Memorandum of cooperation on the construction and operation of the TurkStream pipeline on the territory of Greece. On 22 June 2015, Turkey issued a permit for engineering surveys for the offshore section of the TurkStream pipeline. On 14 September 2015, Gazprom Deputy CEO Alexander Medvedev announced that the TurkStream pipeline would be postponed due to the political situation in Turkey. On 3 December 2015, Russia announced that preparatory work on the TurkStream pipeline project was halted.

On 7 August 2015, the Northern Cyprus Water Supply project was completed with the installation of the final part of the pipeline connecting Turkey to the Turkish Republic of Northern Cyprus. In early October 2015, the first fresh water from Turkey reached the Turkish Republic of Northern Cyprus.

On 10 November 2015, the European Commission published the EU Progress Report for Turkey. In its report, the European Commission urged Turkey to lift restrictions on media freedom, respect human rights and stop interfering in the judiciary. The report states that Turkey saw a deterioration of its security situation. The European Commission called for a relaunch of peace talks. Regarding the economic criteria, the report emphasized that the Turkish economy is well advanced and can be considered a functioning market economy. Additionally, it confirmed that Turkey is developing the capacity to cope with the competitive pressure and market forces within the EU. The Report also states that political dialogue on foreign and security policy continued, including on counter-terrorism, against the background of Turkey joining the international coalition against DAESH.

On 14 December 2015, Chapter 17-Economic and Monetary Policy of the EU Acquis was opened to negotiations. This brings the number of chapters opened to negotiations to 15, one of which is provisionally closed.

On 15 March 2016, the fifth Turkey and Azerbaijan High Strategic Cooperation Council meeting was held in Ankara. During the meeting, six cooperation agreements were signed alongside a declaration to increase efforts to complete the Trans Anatolian Pipeline Project before the scheduled date.

On 16 March 2016, Turkey ratified the new Trade Facilitation Agreement, becoming the 71st World Trade Organisation member to do so.

On 14 April 2016, the European Parliament released a report criticising Turkey over democracy, human rights and the rule of law while calling for an end to military operations in the Kurdish populated southeast. On 15 April 2016, Turkey's European Union Affairs Minister announced that the report is considered null and void and stated that it would be sent back to the European Parliament.

Cyprus

On 26 April 2015, Presidential elections were held in northern Cyprus. Mustafa Akıncı won the elections by gaining 60.83 per cent. of the votes. Following the completion of the elections, comprehensive settlement negotiations resumed on 15 May 2015. On 27 July 2015, the Turkish Cypriot parliament approved the country's new coalition government. On 5 April 2016, the prime minister of the Turkish Cypriot administration submitted the resignation of his government following the withdrawal of the government's coalition partner. Turkish Cypriot President Mustafa Akıncı has assigned National Unity Party (UBP) Chairman Hüseyin Özgürün to form a new government. On 18 April 2016, the new cabinet which was formed by the National Unity Party leader Hüseyin Özgürün and the Democrat Party leader Serdar Denktaş with the support of the independent deputies was approved by President Mustafa Akıncı.

United States

On 11 June 2012, the United States issued a waiver to Turkey from certain U.S. extraterritorial sanctions against Iran that otherwise might have applied by reference to Turkish imports of Iranian crude oil. The waiver took effect as of 28 June 2012, for a renewable period of six months and was later superseded by additional sanctions relief under the Joint Plan of Action with Iran, enabling Turkey, among other countries, to continue purchasing its then-current average amounts of such crude oil from 20 January 2014 forward, subject to the non-involvement of the US financial system and other US elements in those transactions. This sanctions relief was last extended on 14 July 2015 in connection with the Joint Comprehensive Plan of Action ("JCPOA") through "Implementation Day" of the JCPOA sanctions relief, at which time the United States suspended more broadly the relevant extraterritorial sanctions, while leaving in place the primary sanctions against the involvement of US elements in Iran-related oil transactions. On 18 October 2015, the U.S. Secretary of State issued contingent waivers of certain statutory sanctions provisions. These waivers only took effect on Implementation Day. Until Implementation Day was reached, the only changes to the Iran-related sanctions were those provided for in the Joint Plan of Action of 24 November 2013, as extended. As of 16 January 2016, which was "Implementation Day" under the JCPOA agreed with Iran in July 2015, the relevant U.S. extraterritorial sanctions were lifted, leaving in place only the primary sanctions which prohibit the involvement of U.S. elements in Iran-related oil transactions.

On 24 July 2015, Turkey allowed its Incirlik air base to be used by the United States to fight against DAESH within a certain framework.

Syria

On 16 May 2015, a Turkish fighter jet shot down a Syrian aerial vehicle for violating Turkish air space in accordance with its rules of engagement and determination to protect its borders.

On 24 July 2015, the Turkish Air Force bombed certain DAESH targets in Syria, based on Turkey's right of self-defense in accordance with Article 51 of the UN Charter. The Turkish Air Force also targeted PKK militant camps in northern Iraq.

On 16 August 2015, having reassessed the threats stemming from the conflict in Syria, the United States and Germany decided to remove Patriot missile batteries from southern Turkey.

On 3 December 2015, the Prime Minister of Turkey announced that Turkey is setting up "physical barriers" in the 98-km (61 mile) stretch of land controlled on the Syrian side by DAESH.

On 18 December 2015, the United Nations Security Council unanimously agreed a Resolution 2254 endorsing an international roadmap for a Syrian peace process. Turkey has announced that it supports a solution in which Bashar Assad would be transitioned out in the envisaged political transition process through absolute transfer of power to a transitional government.

On 13 February 2016, Syria's Democratic United Party ("**PYD**"), a terrorist group affiliated with the PKK, located around Azaz in northern Syria, shelled the Akçabağlar base of the Turkish military, located near the Kilis province. Turkish Armed Forces shelled PYD targets in retaliation under Turkey's military rules of engagement. On February 16, 2016, at the request of Russia, the UN Security Council discussed Turkey's shelling of PYD targets in Syria and expressed their concerns.

On 14 February 2016, Saudi military jets landed at Turkey's Incirlik air base in the southern Adana province to carry out missions against DAESH.

Russia

Following the launch of Russian airstrikes in Syria commencing on 30 September 2015, on 3-4 October 2015, two Turkish F-16 fighter jets intercepted a Russian plane that entered Turkey's airspace. The Republic strongly objected to the incidents and on 5 October 2015, NATO issued a statement denouncing the violation of Turkish airspace and requesting that Russia cease its attacks on the Syrian opposition and civilians, focus its efforts on fighting DAESH, and promote a solution to the conflict through a political transition.

On 24 November 2015, Turkey's military downed a Russian warplane near Turkey's border. The plane had violated Turkish air space after being repeatedly warned to change its course. Since then, relations between Turkey and Russia have deteriorated. Russia has imposed some economic sanctions on Turkey, including a ban on the import of some Turkish foods, banning Russian tourists from visiting Turkey, and a ban on charter flights to Turkey. Russia also announced an end to visa-free travel for Turks to Russia and terminated the extension of labor contracts for Turks working there. On 30 November 2015, NATO announced that Turkey has the right to protect and defend its borders following the downing of the Russian warplane.

On 7 December 2015, the Deputy Prime Minister of Turkey announced that a worst-case scenario of "zero relations" with Russia would cost Turkey about U.S. \$9 billion. On 30 December 2015, Russia broadened its sanctions against Turkey, which include restricting new Turkish construction and curbing tourism activities in Russia.

Iraq

On 11 June 2014, DAESH seized the Turkish consulate in Mosul, Iraq and held 49 employees hostage, including 46 Turks and three local Iraqis, for over three months. On 20 September 2014, the hostages were released. The Mosul consulate is no longer operational.

On 6 December 2015, Turkey deployed forces to a camp in a region of northern Iraq as a routine rotation to train Iraqis to retake Mosul from DAESH. The Iraqi Prime Minister said his country might turn to the U.N. Security Council if Turkish troops sent to northern Iraq were not withdrawn within 48 hours. Later, Turkey decided to halt the transfer of troops. On 8 December 2015, Iraq's ambassador to the United Nations stated that bilateral talks between the neighbouring states were proceeding favourably. On 18 December 2015, Turkey decided to move troops out of Iraq to de-escalate tensions.

ECONOMIC DEVELOPMENTS

The following table sets forth the percentage of GDP represented by economic sector (at constant prices and expressed in percentages) for the periods indicated:

	2014	2015 Q1	2015 Q2	2015 Q3	2015 Q4
GDP by Economic Sector					
1. Agriculture, forestry and fishing	8.8	4.7	7.4	15.2	8.3
2. Mining and quarrying.....	0.7	0.5	0.7	0.7	0.6
3. Manufacturing	24.2	25.6	25.8	21.2	24.2
4. Electricity, gas, steam and air conditioning supply	1.8	1.5	1.7	1.7	2.1

5. Water supply, sewerage, waste management and remediation...	0.4	0.4	0.4	0.4	0.4
6. Construction.....	5.8	5.7	5.9	5.6	5.7
7. Wholesale and retail trade	12.6	13.0	13.0	11.3	12.4
8. Transportation and storage	12.4	12.4	12.6	11.8	12.2
9. Accommodation and food service activities.....	2.0	1.5	1.5	3.2	1.7
10. Information and communication	2.6	2.8	2.5	2.2	2.7
11. Financial and insurance activities.....	13.2	14.1	12.7	13.7	15.3
12. Real estate activities.....	4.6	4.9	4.6	4.3	4.5
13. Professional, scientific and technical activities	2.6	3.5	2.5	2.0	3.1
14. Administrative and support service activities	1.9	2.2	1.8	1.5	2.0
15. Public administration and defense; compulsory social security ..	2.9	3.0	2.7	2.8	2.9
16. Education	2.0	2.4	2.1	1.7	2.0
17. Human health and social work activities.....	1.2	1.5	1.2	1.1	1.1
18. Arts, entertainment and recreation	0.2	0.2	0.2	0.2	0.2
19. Other service activities.....	0.9	0.9	0.8	0.8	0.8
20. Activities of household as employers	0.2	0.2	0.1	0.1	0.2
21. Sectoral total	100.8	101.0	100.4	101.5	102.4
22. Financial intermediation services indirectly measured.....	9.2	10.1	9.4	9.9	11.3
23. Taxes-Subsidies	8.5	9.1	8.9	8.4	8.9
24. Gross Domestic Product (Purchaser's Price).....	100.0	100.0	100.0	100.0	100.0

Source: TURKSTAT

The following table sets forth increases or decreases in GDP (at constant prices and expressed in percentages) for the periods indicated:

	Q1	Q2	Q3	Q4	Annual
GDP growth rates (in per cent.)					
2014.....	5.2	2.4	1.8	3.0	3.0
2015.....	2.5	3.7	3.9	5.7	4.0

Source: TURKSTAT

For the month of April 2016, CPI increased by 0.78 per cent. and domestic PPI increased by 0.52 per cent. as compared to the previous month.

In April 2016, the Republic's annual CPI and domestic PPI increased by 6.57 per cent. and 2.87 per cent., respectively, as compared to the same month of the previous year.

On 4 May 2016, the Government offered an interest rate of 9.33 per cent. for its 10-year Government Bond, compared to 9.28 per cent. on 13 May 2015.

The calendar adjusted industrial production index increased by 2.9 per cent. in March 2016 compared to March 2015 (year on year).

The following table indicates unemployment figures for 2015-2016:

	Unemployment rate	Number of unemployed
2015		
January.....	11.3	3,259,000
February	11.2	3,226,000
March.....	10.6	3,069,000
April	9.6	2,821,000
May	9.3	2,789,000
June	9.6	2,880,000
July	9.8	2,970,000
August.....	10.1	3,058,000
September	10.3	3,103,000
October	10.5	3,147,000
November.....	10.5	3,125,000
December	10.8	3,204,000
2016		
January.....	11.1	3,290,000
February	10.9	3,224,000

Source: TURKSTAT

On 11 January 2016, the Medium Term Program covering the 2016-2018 period (the "**2016-2018 Medium Term Program**") was announced. The main objectives of the 2016-2018 Medium Term Program are increasing stable and inclusive growth, reducing inflation, preserving the decreasing trend in the current account deficit, increasing competitiveness, employment and productivity, and improving fiscal discipline and strengthening public finance. The 2016-2018 Medium Term Program set a central government budget deficit target of 1.3 per cent. of GDP by the end of 2016, 1.0 per cent. of GDP by the end of 2017, and 0.8 per cent. of GDP by the end of 2018. In the 2016-2018 Medium Term Program, the government announced that real GDP target growth is 4.5 per cent. in 2016, and 5.0 per cent. in 2017 and 2018. The primary surplus to GDP ratio target is 0.6 per cent. for 2016, 1.1 per cent. for 2017, and 1.3 per cent. for 2018. The general government deficit to GDP target is 0.7 per cent. for 2016, 0.7 per cent. for 2017 and 0.4 per cent. for 2018. The EU defined general government debt to GDP ratio target is 31.7 per cent. for 2016, 30.5 per cent. for 2017 and 29.5 per cent. for 2018. The current account deficit to GDP ratio target is 3.9 per cent. for 2016, 3.7 per cent. for 2017, and 3.5 per cent. for 2018. The domestic savings to GDP ratio target is 16.5 per cent. for 2016, 17.2 per cent. for 2017 and 17.8 per cent. for 2018. The CPI inflation target is 7.5 per cent. for 2016, 6.0 per cent. for 2017 and 5.0 per cent. for 2018. The unemployment target is 10.2 per cent. for 2016, 9.9 per cent. for 2017 and 9.6 per cent. for 2018.

TOURISM

In March 2016, the number of foreign visitors visiting the Republic decreased by approximately 12.84 per cent. to 1,652,511 as compared to the same month of 2015. Between January and March 2016, the number of foreign visitors visiting the Republic decreased by approximately 10.30 per cent. to 4,063,477 as compared to the same period in 2015. According to the Turkish Statistical Institute, in the fourth quarter of 2015, tourism revenues decreased by 14.3 per cent. compared to the same period of 2014.

EMPLOYMENT AND WAGES

On 30 December 2015, the Minimum Wage Determination Commission agreed to increase the minimum wage by 30 per cent. to TL 1,300 from TL 1,000. In order to prevent a black market economy and support employers, in a measure valid for 2016 only, 40 per cent. of the effective increase will be compensated by the government through a deduction from social assurance premiums, and the Social Assurance Institution budget is in turn reimbursed by the budget. As of 30 December 2015, there were around 5.3 million workers on minimum wage payroll in Turkey.

As of February 2016, total civilian employment was approximately 26.46 million of whom approximately 18.4 per cent. were employed in agriculture, 19.9 per cent. in industry, 6.7 per cent. in construction and 55.0 per cent. in services sectors. In February 2016, the labor force participation rate was at 55.6 per cent., compared to 54.6 per cent. in February 2015. There were approximately 3,604,405 public sector workers at the end of the first quarter of 2016.

As of March 2016, the total asset value of the Unemployment Insurance Fund amounted to TL 95.3 billion. The monthly return of the fund for March 2016 was 0.68 per cent. As of March 2016, approximately 92.7 per cent. of the Unemployment Insurance Fund was invested in bonds and 7.3 per cent. of the assets were held in deposits.

As of 23 May 2016, the number of pension funds offered to the public equaled 250. The total net asset value of these funds increased to approximately TL 52.9 billion as of 23 May 2016 from TL 47.8 billion on 31 December 2015.

FOREIGN TRADE AND BALANCE OF PAYMENTS

In March 2016, the trade balance (according to provisional data) posted a deficit of U.S.\$4.946 billion as compared to a deficit of U.S.\$6.205 billion in the same period in 2015. In March 2016, total goods imported (c.i.f.), including gold imports, decreased by 5.2 per cent. to approximately U.S.\$17.758 billion, as compared to approximately U.S.\$18.726 billion during the same period in 2015. In March 2016, the import of capital goods, which are used in the production of physical capital, increased by approximately 22.6 per cent. over the same period in 2015; the import of intermediate goods such as partly finished goods and raw materials, which are used in the production of other goods, decreased by approximately 11.8 per cent. over the same period in 2015; and the import of consumption goods decreased by approximately 1.9 per cent. over the same period in 2015. In March 2016, total goods exported (f.o.b.), increased by 2.3 per cent. to approximately U.S.\$12.811 billion, as compared to approximately

U.S.\$12.521 billion during the same period of 2015. Between January and March 2016, the current account produced a deficit of approximately U.S.\$7.878 billion, as compared to a deficit of approximately U.S.\$10.523 billion in the same period of 2015.

According to provisional data, net foreign direct investment inflows into Turkey amounted to U.S.\$433 million in March 2016.

The following table summarizes the balance of payments of Turkey for the periods indicated:

in millions of US dollar*	January- March 2016
CURRENT ACCOUNT	-7,878
Trade Balance	-8,149
Goods Exports	36,591
Goods Imports	44,740
Services	-6,521
Primary Income	-1,873
Secondary Income	516
CAPITAL ACCOUNT	15
FINANCIAL ACCOUNT	-7,132
Direct Investment (net)	-1,268
Portfolio Investment (net)	-2,612
Assets	777
Liabilities	3,389
Other Investment (net)	-3,252
Assets	3,622
Liabilities	6,874
RESERVE ASSETS	2,107
NET ERRORS AND OMISSIONS	2,838

*Provisional

Source: CBRT

In February 2016, the volume of crude oil imports increased by 12.77 per cent. compared to February 2015. In March 2016, natural gas imports decreased by 10.87 per cent. to 3,812.55 million cubic meters compared to 4,277.50 million cubic meters in March 2015. In February 2016, liquefied petroleum gas imports decreased by 1.5 per cent. to 255,034 tons compared to 259,020 tons in February 2015.

As of March 2016, total gross international reserves were approximately U.S.\$135,329 million (compared to U.S.\$138,176 million as of March 2015). As of March 2016, gold reserves were approximately U.S.\$18,872 million (compared to U.S.\$19,514 million as of March 2015) and the Central Bank gross foreign exchange reserves were approximately U.S.\$95,704 million (compared to approximately U.S.\$101,214 million as of March 2015).

As of 20 May 2016, the Central Bank held approximately TL 24.5 billion in public sector deposits.

MONETARY POLICY

The Central Bank set the annual inflation target rate for 2016 at 5.0 per cent. The following table sets forth the quarterly inflation path and uncertainty band for 2016:

Inflation Path Consistent with the Year-End Inflation Target and the Uncertainty Band for 2016

	March	June	September	December
Uncertainty Band (Upper Limit)	7.0	7.0	7.0	7.0
Path Consistent with the Target	5.0	5.0	5.0	5.0
Uncertainty Band (Lower Limit)	3.0	3.0	3.0	3.0

Source: Central Bank

On 23 May 2016, the Central Bank foreign exchange buying rate for U.S. dollars was TL 2.9826 per U.S. dollar.

The following table displays the period-end exchange rate of Turkish Lira per U.S. Dollar, Euro, Japanese Yen and against the US Dollar-Euro currency basket:

Period-End Exchange Rates

	2015	2016**
Turkish Lira per US Dollar	2.92	2.98
Turkish Lira per Euro	3.18	3.35
Turkish Lira per 100 Japanese Yen	2.42	2.72
Turkish Lira per Currency Basket (*)	3.05	3.16

(*) The basket consists of U.S.\$0.5 and EUR 0.5.

(**) As of 23 May 2016.

Source: CBRT

On 18 August 2015, the Central Bank announced a roadmap for the process of simplifying monetary policy. The main directives of this process are: interest rate corridor would be made more symmetric around the one-week repo interest rate and the width of the corridor would be narrowed (during normalization), the overnight borrowing facility provided for primary dealers via repo transactions would be terminated (before normalization), and collateral conditions would be simplified (before and during normalization). In an effort to support financial stability, the Central Bank introduced some incentives to encourage longer term borrowing of banks, and took measures to reduce intermediation costs, among others.

On 21 October 2015, the Monetary Policy Committee held a meeting at which it kept short-term interest rates constant (compared to the prior meeting) as follows:

- (a) Overnight Interest Rates: the Marginal Funding Rate was kept at 10.75 per cent., and the borrowing rate was kept at 7.25 per cent.
- (b) The one-week repo rate was kept at 7.5 per cent.
- (c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): the borrowing rate was kept at 0 per cent. and the lending rate was kept at 12.25 per cent.

The Monetary Policy Committee stated that annual loan growth continued at reasonable levels in response to the tight monetary policy stance and macroprudential measures and that the favourable developments in the terms of trade and the moderate course of consumer loans contribute to the improvement in the current account balance. The Monetary Policy Committee also stated that external demand remained weak in the first half of the year, while domestic demand contributed to growth moderately. The Monetary Policy Committee assessed that the implementation of the announced structural reforms would contribute to potential growth significantly. The Monetary Policy Committee noted that energy price developments affect inflation favourably, while exchange rate movements delay the improvement in the core indicators. The Monetary Policy Committee also noted that considering this delay and taking into account the uncertainty in domestic and global markets and the volatility in energy and food prices, the Committee decided to implement a tighter liquidity policy as long as deemed necessary. The Monetary Policy Committee also stated that future monetary policy decisions will be conditional on the inflation outlook, and taking into account inflation expectations, pricing behaviour and the course of other factors affecting inflation, the tight monetary policy stance will be maintained.

On 24 November 2015, the Monetary Policy Committee held another meeting at which it kept short-term interest rates constant compared to the prior meeting on 21 October 2015. The Monetary Policy Committee determined that developments in energy prices continue to affect inflation favourably, yet cumulative effects of the exchange rate movements delay the improvement in the core inflation trend. The Monetary Policy Committee also noted that the growth composition appears to be shifting in favour of net exports thanks to the rising demand from the EU countries. The Monetary Policy Committee stated that future monetary policy decisions will be conditional on the inflation outlook; taking into account inflation expectations, the pricing behaviour and developments in other factors affecting inflation, the tight monetary policy stance will be maintained.

On 9 December 2015, the Central Bank announced the monetary and exchange rate policy for 2016. The Central Bank noted that it will maintain a price stability-oriented monetary policy framework while

aiming to keep inflation close to the target. The Central Bank stated that the uncertainty band will be maintained at 2 per cent. in both directions, as in previous years.

On 22 December 2015, the Monetary Policy Committee held another meeting at which it kept short-term interest rates constant compared to the prior meeting on 24 November 2015. The Committee stated that the desired improvement in the inflation outlook was yet to be seen. The Committee noted that although energy price developments continue to affect inflation favourably, cumulative exchange rate movements delay the improvement in the core inflation trend. The Committee noted that core inflation indicators are expected to remain at high levels in the short run. In addition, the Committee stated that year-end unprocessed food inflation was likely to exceed the October Inflation Report projections. The Committee also stated that the effect of higher-than-targeted inflation expectations and the acceleration in wage increases necessitate close monitoring of the overall pricing behaviour. Against this backdrop, the Committee stated that the tight liquidity stance would be maintained as long as deemed necessary. The Committee also stated that recent indicators suggest that domestic demand follows a more moderate course in the last quarter of the year, while external demand offers positive contribution to growth. The Committee noted that although geopolitical tensions pose a downside risk to external demand, the recovery in the European economies contributes to external demand. Meanwhile, the Committee stated that the recovery in consumer confidence as well as investment and employment prospects amid waning domestic uncertainties is likely to support domestic demand in the upcoming period. Hence, the Committee expected economic activity to maintain a stable growth trend.

On 19 January 2016, the Monetary Policy Committee held another meeting at which it kept short-term interest rates constant compared to the prior meeting on 22 December 2015. At the meeting, the Committee noted that future monetary policy decisions will be conditional on the inflation outlook. The Committee further noted that, taking into account inflation expectations, pricing behaviour and the course of other factors affecting inflation, the tight monetary policy stance will be maintained. The Committee also assessed the heightened global volatility since the beginning of the year and the January Inflation Report forecasts.

On 23 February 2016, the Monetary Policy Committee held another meeting at which it kept short-term interest rates constant compared to the prior meeting on 19 January 2016. The Committee stated that annual loan growth continues at reasonable rates in response to the tight monetary policy stance and macro-prudential measures. The Committee noted the favourable developments in the terms of trade and the moderate course of consumer loans contributing to the improvement in the current account balance. The Committee also noted that demand from the European Union economies continues to support exports at an increasing pace, despite elevated geopolitical risks in other export markets. The Committee determined that the implementation of announced structural reforms would contribute to potential growth significantly. The Committee stated that energy price developments affect inflation favourably, while other cost factors limit the improvement in the core indicators. Considering the wage developments and the impact of the uncertainty in global markets on inflation expectations and pricing behaviour and taking into account the volatility in energy and unprocessed food prices, the Committee stated that the tight liquidity stance will be maintained as long as deemed necessary. The Committee again noted that future monetary policy decisions will be conditional on the inflation outlook. The Committee further noted that, taking into account inflation expectations, pricing behaviour and the course of other factors affecting inflation, the tight monetary policy stance will be maintained.

On 24 March 2016, the Monetary Policy Committee held another meeting at which it decided to reduce the marginal funding rate from 10.75 per cent. to 10.5 per cent. The Committee kept the borrowing rate and one-week repo rate constant at 7.25 per cent. and 7.5 per cent., respectively, compared to the prior meeting held on 23 February 2016. The Committee stated that annual loan growth continues at reasonable rates in response to the tight monetary policy stance and macroprudential measures. The Committee also noted that favourable developments in the terms of trade and the moderate course of consumer loans contribute to the improvement in the current account balance. The Committee recognized that demand from the European Union economies continues to support exports at an increasing pace, despite elevated geopolitical risks in other export markets. The Committee assessed that the implementation of announced structural reforms would contribute to potential growth significantly. The Committee noted that recently, global volatility has eased to some extent. The Committee further noted that with the effective use of the policy instruments laid out in the road map published in August 2015, the need for a wide interest rate corridor has been reduced. In this respect, the Committee decided to take a measured step towards simplification. However, the Committee stated that improvement in the underlying core inflation trend remains limited, necessitating the maintenance of a tight liquidity stance. The Committee acknowledged

that future monetary policy decisions will be conditional on the inflation outlook. The Committee further acknowledged that taking into account inflation expectations, pricing behaviour and the course of other factors affecting inflation, the tight monetary policy stance will be maintained.

On 20 April 2016, the Monetary Policy Committee held another meeting at which it decided to reduce the marginal funding rate from 10.5 per cent. to 10.0 per cent. The Committee kept the borrowing rate and one-week repo rate constant at 7.25 per cent. and 7.5 per cent., respectively, compared to the prior meeting held on 24 March 2016. The Committee stated that annual loan growth continues at reasonable rates in response to the tight monetary policy stance and macroprudential measures. The Committee also noted that favourable developments in the terms of trade and the moderate course of consumer loans contribute to the improvement in the current account balance. The Committee recognised that demand from the European Union economies continues to support exports at an increasing pace, despite elevated geopolitical risks in other export markets. The Committee also noted that recent data and the leading indicators show that economic activity displays a moderate and stable course of growth. The Committee assessed that the implementation of structural reforms would contribute to potential growth significantly and the recent decline in global volatility has continued and global financial conditions have improved. The Committee further assessed that along with these developments, the effective use of the policy instruments laid out in the road map published in August 2015 has reduced the need for a wide interest rate corridor. In this respect, the Committee decided to take a measured step towards simplification. The Committee stated that recently, inflation displayed a marked decline, which was mainly due to unprocessed food prices, and this decline is expected to continue in the short run. However, improvement in the underlying core inflation trend remains limited, necessitating the maintenance of a tight liquidity stance. The Committee acknowledged that future monetary policy decisions will be conditional on the inflation outlook and taking into account inflation expectations, pricing behaviour and the course of other factors affecting inflation, the tight monetary policy stance will be maintained.

On 24 May 2016, the Monetary Policy Committee held another meeting at which it decided to reduce the marginal funding rate from 10.0 per cent. to 9.5 per cent. The Committee kept the borrowing rate and one-week repo rate constant at 7.25 per cent. and 7.5 per cent., respectively, compared to the prior meeting held on 20 April 2016. The Committee also decided to reduce the late liquidity window lending rate from 11.5 per cent. to 11 per cent. The Committee stated that annual loan growth continues at reasonable rates in response to the tight monetary policy stance and macroprudential measures. The Committee also noted that favourable developments in the terms of trade and the moderate course of consumer loans contribute to the improvement in the current account balance. The Committee recognised that demand from the European Union economies continues to support exports, while domestic demand continues to have a positive impact on growth. The Committee also noted that economic activity displays a moderate and stable course of growth. The Committee assessed that the implementation of the structural reforms would contribute to the potential growth significantly. The Committee further assessed that the tight monetary policy stance, the cautious macroprudential policies and the effective use of the policy instruments laid out in the road map published in August 2015 increase the resilience of the economy against shocks. In this respect, the Committee decided to take a measured step towards simplification. The Committee stated that recently inflation has displayed a marked decline, which was mainly due to unprocessed food prices. However, improvement in the underlying core inflation trend remains limited, necessitating the maintenance of a tight liquidity stance. The Committee acknowledged that future monetary policy decisions will be conditional on the inflation outlook and taking into account inflation expectations, pricing behaviour and the course of other factors affecting inflation, the tight monetary policy stance will be maintained.

As of 24 May 2016, the one-week repo auction rate of the Central Bank was 7.5 per cent., the Central Bank overnight borrowing interest rate was 7.25 per cent. and the Central Bank marginal funding rate was 9.5 per cent.

BANKING SYSTEM

The Republic has a relatively strong, well-capitalized and profitable banking system. The banking system in the Republic had a capital adequacy ratio of 15.49 per cent. and a relatively low non-performing loan ratio of 3.28 per cent. as of March 2016. This ratio takes into account a moderate increase in non-performing retail loans.

As of March 2016, the loan to deposit ratio and net income margin of the banking sector were 122.98 per cent. and 0.34 per cent., respectively.

On 29 May 2015, Turkey's first state-owned participation bank (a financial institution whose activities are in compliance with Islamic rules), Ziraat Participation Bank, officially began operating.

On 26 February 2016, Turkey's second state-owned participation bank, Vakıf Participation Bank, officially began operating with an initial capital of TL 805 million.

As of 28 August 2015, the reserve requirement ratios (the "RRRs" and each, an "RRR") for foreign exchange (FX) denominated liabilities of banks and financing companies were revised in order to encourage the extension of maturities of non-core liabilities. New ratios started to be applied to the liabilities after August 28, 2015 and the maintenance period began on 23 October 2015.

Liabilities other than Deposits/Participation Funds	Previous Ratios (%)	New Ratios (%)
With maturity up to (and including 1 year)	20	25
With maturity up to (and including 2 years).....	14	20
With maturity up to (and including 3 years).....	8	15
With maturity up to (and including 5 years).....	7	7
With maturity longer than 5 years	6	5

Source: CBRT

As of 22 April 2016, the RRRs for Turkish Lira deposits/participation accounts were between 5 per cent. and 8.5 per cent. depending on maturity. Furthermore, as of that date RRRs were 11.5 per cent. for Turkish Lira demand deposits, notice deposits and private current accounts, and deposits/participation accounts with maturities up to one month and three months (including 1 and 3 months).

In February 2015, the Turkish Banking Regulation and Supervision Agency (the "BRSA") ordered the seizure of Asya Katılım Bankası, a publicly traded bank in Turkey that trades as Bank Asya, as a result of which the Turkish Savings and Deposits Insurance Fund assumed management control of the bank. The BRSA announced it was taking such action due to Bank Asya's violation of a provision of the Banking Law that requires banks to have a transparent and open shareholding and organizational structure that does not obstruct the efficient auditing of the bank by the BRSA. On 29 May 2015, the management of Bank Asya was transferred to the Savings Deposit Insurance Fund. On 23 May 2016, the Savings Deposit Insurance Fund decided to sell Bank Asya. The deadline for bids to acquire the bank has been set for 23 June 2016 with the tender to be held the following day.

PUBLIC FINANCE AND BUDGET

During the period from January – April in 2016, the central government consolidated budget expenditures were approximately TL 176.0 billion and the central government consolidated budget revenues were approximately TL 181.4 billion, compared to central government consolidated budget expenditures of approximately TL 160.2 billion and consolidated budget revenues of approximately TL 156.2 billion during the same period in 2015. During the period from January – April in 2016, the central government consolidated budget surplus was approximately TL 5.4 billion, compared to a central government consolidated budget deficit of approximately TL 4.1 billion during the same period in 2015.

During the period from January – April in 2016, the central government consolidated budget primary surplus reached approximately TL 24.6 billion, compared to the central government consolidated budget primary surplus of approximately TL 20.1 billion during the same period in 2015.

In April 2016, the central government consolidated budget expenditures were approximately TL 44.3 billion and the central government consolidated budget revenues were approximately TL 49.7 billion, compared to central government consolidated budget expenditures of approximately TL 41.6 billion and central government consolidated budget revenues of approximately TL 43 billion during the same period in 2015.

In April 2016, the central government consolidated budget surplus was approximately TL 5.4 billion, compared to a central government consolidated budget surplus of approximately TL 1.4 billion during the same period in 2015.

In April 2016, the central government consolidated budget primary surplus reached approximately TL 8 billion, compared to a central government consolidated budget primary surplus of approximately TL 7.5 billion during the same period in 2015.

The following table sets forth the details of the central government budget for the period from January-April 2016 and for April 2016.

Central Government Budget (Thousand TL)	January – April 2016 (cumulative)	April 2016
Budget Expenditures	176,015,785	44,348,433
1-Excluding Interest	156,866,591	41,665,395
Compensation of Employees	51,188,061	12,515,861
Social Security Contributions	8,525,452	1,970,211
Purchase of Goods and Services	13,862,934	4,635,239
Current Transfers	71,861,071	17,627,456
Capital Expenditures	6,556,473	3,292,098
Capital Transfers	1,164,803	495,116
Lending	3,707,797	1,129,414
2-Interest	19,149,194	2,683,038
Budget Revenues	181,419,593	49,705,924
1-General Budget Revenues	173,835,116	47,600,629
Taxes	140,989,297	32,446,011
Property Income	14,469,157	12,292,082
Grants and Aids and Special Revenues	1,358,780	119,639
Interest, Shares and Fines	10,330,142	2,556,602
Capital Revenues	6,582,894	130,258
Collections from Loans	104,846	56,037
2-Special Budget Institutions	5,181,992	1,404,998
3-Regularity & Supervisory Institutions	2,402,485	700,297
Budget Balance	5,403,808	5,357,491
Balance Excluding Interest	24,553,002	8,040,529

Source: Ministry of Finance

According to the Constitution, the budget law should be submitted to the Parliament at least 75 days prior to the year end. Moreover, the budget law (either provisional or not) should be enacted before the beginning of the fiscal year. However, due to the busy election calendar, the Parliament was not able to negotiate the budget in 2015. Under these circumstances, according to article 19 of the Law 5018 named Public Management and Control, a provisional budget should be enacted. The provisional budget, which covered the period between 1 January 2016 and 31 March 2016, was approved by the Parliament and published in the Official Gazette on 23 December 2015.

Following Parliamentary negotiations that took place in January and February of 2016, the final 2016 Budget Law was approved on 9 March 2016 and published in the Official Gazette on 16 March 2016.

PRIVATISATION

The Republic's plans for privatization include, among others, the remaining shares of Turk Telekom A.S., Turk Hava Yollari A.O., electricity generators/distributors, bridges and ports, toll roads, Halkbank, and the national lottery.

In 2015, the privatization implementations of Turkey amounted to an aggregate U.S.\$2 billion in value. In 2016, the privatization implementations of Turkey amounted to U.S.\$674.0 million in value as of 16 May 2016.

The following table sets out a summary of the most significant privatization implementations completed in 2015-2016:

Name of The Company or Asset	Date of Privatization	Amount (US Dollar)
TCDD—Derince Port.....	25/2/2015	543,000,000
SEAS—Soma B Thermal Power Plants and immovable fixed assets of this Plant	22/6/2015	685,500,000
EÜAŞ—Orhaneli ve Tunçbilek Thermal Power Plants and immovable fixed assets of BLI.....	22/6/2015	521,000,000
EÜAŞ—Manavgat Hydroelectric Power Plant and its immovable fixed assets	4/4/2016	131,219,633
EÜAŞ—Doğankent, Kürtün ve Torul Hydroelectric Power Plant and its immovable fixed assets	29/4/2016	435,204,263

Note: Only privatizations worth U.S.\$100 million or more are listed above.

Total privatisation proceeds realized by the Turkish Privatization Administration (PA) since 1985 amounted to U.S.\$67.6 billion as of 16 May 2016.

DEBT

On 29 January 2016, the Treasury revised the 2016 financing program based on the new medium-term program projections. According to the revised program, the total amount of debt service is projected to be TL 120.4 billion, comprising payments of TL 70.9 billion in principal and TL 49.5 billion in interest. Total domestic debt service is expected to be TL 94.0 billion while total external debt service is expected to be TL 26.5 billion. On the external financing front, the Treasury announced that up to U.S. \$4.5 billion equivalent external financing is planned in 2016 through bond and lease certificate issuances in international markets and the total amount of external financing is planned to reach at most U.S. \$5.5 billion, with the inclusion of project and program loans from the World Bank, European Investment Bank and other international financial institutions.

The Central Government's total domestic debt stock was approximately TL 449.4 billion as of the end of April 2016, compared to approximately TL 428.5 billion as of the end of April 2015. In April 2016, the average maturity of the Republic's domestic cash borrowing was 59 months, as compared to 80.1 months in April 2015. The average annual interest rate on domestic cash borrowing in local currency (including discounted treasury bills/government bonds) on a compounded basis was 10.47 per cent. in April 2016, compared to 8.26 per cent. in April 2015.

In 2015, the Republic's average external borrowing cost for dollar-denominated issuances was approximately 4.7 per cent.

The EU-defined general government debt to GDP ratio in 2015 was 32.9 per cent., compared to 33.5 per cent. in 2014.

The total gross outstanding external debt of the Republic was approximately US\$398,038 million (at then-current exchange rates) at the end of 2015. The table below summarizes the gross external debt profile of the Republic (at period end).

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross External Debt Profiles	(Million USD)				(Million USD)			
GROSS EXTERNAL								
DEBT	389,388	403,518	398,887	402,705	393,144	405,625	407,376	398,038
SHORT TERM	125,667	131,519	131,445	131,732	128,371	125,984	118,804	102,749
Public Sector.....	17,843	18,159	18,934	17,866	18,165	16,924	15,355	14,550
Central Bank.....	762	661	417	342	290	270	208	176
Private Sector.....	107,062	112,699	112,094	113,524	109,916	108,790	103,241	88,023
LONG TERM	263,721	271,999	267,442	270,973	264,773	279,641	288,572	295,289
Public Sector.....	99,375	101,402	100,130	99,843	95,318	98,903	99,582	98,405
Central Bank.....	4,100	3,628	2,527	2,142	1,820	1,708	1,344	1,151
Private Sector.....	160,246	166,969	164,786	168,988	167,634	179,030	187,646	195,733

Source: Undersecretariat of Treasury

SUMMARY OF KEY ECONOMIC INDICATORS

The following table summarizes the key economic indicators of Turkey for the periods indicated:

	2010	2011	2012	2013	2014	2015
Nominal GDP (billion TL)	1,099	1,298	1,417	1,567	1,748	1,954
Real GDP Growth (%)	9.2	8.8	2.1	4.2	3.0	4.0
Unemployment (%)	11.2	9.2	8.4	9.1	9.9	10.3
Consumer Price Index (%)	6.40	10.45	6.16	7.40	8.17	8.81
Domestic Manufacturing Producer Price Index (%)	6.02	13.3	5.5	4.5	11.4	5.9
Current Account Deficit (million USD)	44,616	74,402	47,961	63,608	43,552	32,141
Public Sector Budget Primary Balance /GDP (%)	0.7	1.8	0.8	1	0.6	0.8*
Central Government External Debt Stock (million USD)	78,085	79,184	81,710	85,663	85,162	81,685
Public Sector Borrowing Requirement/GDP (%)	2.4	0.1	1	0.5	0.6	0*

Source: TURKSTAT, CBRT, Treasury

* 2016-2018 Medium Term Program target

In 2015, growth was mainly driven by the increase in domestic demand. External demand's contribution to growth in 2015 was negative. The unemployment rate in 2015 increased due to the rise in labor force participation. Inflation in 2015 increased due mainly to increases in food prices and unfavourable exchange rates. The current account deficit in 2015 improved due mainly to the decline in oil and commodity prices. The current account is mainly financed through long-term sources and direct capital investments. Domestic debt security yields increased primarily because of the overall increase in global rates and tight liquidity conditions in 2015.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following are the Terms and Conditions of the Certificates which will be incorporated by reference into each Global Certificate and each Definitive Certificate (as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Joint Lead Managers at the time of issue but, if not so permitted and agreed, such Definitive Certificates will have endorsed thereon or attached thereto such Terms and Conditions.

Hazine Müsteşarlığı Varlık Kiralama Anonim Sirketi (the "**Issuer**") has authorised the issue of its unsecured U.S.\$1,000,000,000 lease certificates due 2021 (the "**Certificates**").

In these Conditions, references to "**Certificates**" shall be references to the Certificates (whether in global form as a Regulation S Global Certificate or a Rule 144A Global Certificate or in definitive form as a Regulation S Definitive Certificate or a Rule 144A Definitive Certificate).

To the extent permitted by Article 7/A of Law Number 4749 on Regulating Public Finance and Debt Management (as amended by Article 32 of Law Number 6327 and Article 2 of Law Number 6456) ("**Article 7/A of Law Number 4749**") and the ministerial decisions, dated 17 August 2012 and 1 June 2016, passed by the Deputy Prime Minister for Economic and Financial Affairs (the "**Ministerial Decisions**"), the Representative Agreement and these Conditions, each Certificate will evidence the entitlement of each Certificateholder, once the Issuer acquires the Lease Certificate Assets, to the economic benefit of the use of the Lease Certificate Assets on a *pro rata* basis in the proportion which the face amount of such Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates. Each Certificate will be issued pursuant to a representative agreement (the "**Representative Agreement**") to be dated on or about the Closing Date entered into by the Issuer, the Republic of Turkey (the "**Republic**") and Citibank, N.A., London Branch (in its capacity as trustee for itself and the Certificateholders pursuant to the Representative Agreement, the "**Representative**", which expression shall include any co representative, any replacement representative and any successor thereto from time to time).

Payments relating to the Certificates will be made pursuant to a paying agency agreement to be dated on or about the Closing Date (the "**Paying Agency Agreement**") made between, *inter alios*, the Issuer, the Republic, the Representative and Citibank, N.A., London Branch, as principal paying agent (in such capacity, the "**Principal Paying Agent**" and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the "**Paying Agents**"), Citigroup Global Markets Deutschland AG, as registrar (in such capacity, the "**Registrar**") and, together with Citibank, N.A., London Branch, as transfer agents (in such capacities, each a "**Transfer Agent**" and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**"). The Paying Agents, the Registrar and the Transfer Agents are together referred to in these Conditions as the "**Agents**". References to the Agents or any of them or to the Representative shall include their successors.

The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of the following documents (copies of which are available for inspection during usual business hours at the office of the Issuer (presently at İnönü Bulvarı No: 36, Kat: 13 06510 Emek, Ankara, Turkey) and at the specified offices of the Paying Agents):

- (i) a sale and purchase agreement between, amongst others, the Issuer (in its capacity as Purchaser) and the Republic (in its capacity as Seller) to be dated on or about the Closing Date (the "**Sale Agreement**");
- (ii) a lease agreement between, amongst others, the Issuer (in its capacity as lessor) and the Republic (in its capacity as lessee) to be dated on or about the Closing Date (the "**Lease Agreement**");
- (iii) a servicing agency agreement between the Issuer (in its capacities as issuer and lessor), the Republic (in its capacity as Servicing Agent) and the Representative to be dated on or about the Closing Date (the "**Servicing Agency Agreement**");
- (iv) a purchase undertaking deed executed by the Republic in favour of the Issuer and the Representative to be dated on or about the Closing Date (the "**Purchase Undertaking**"), containing the form of sale agreement (the "**Purchase Undertaking Sale Agreement**") to be

entered into by the Republic and the Issuer in the circumstances set out in the Purchase Undertaking;

- (v) a redemption undertaking deed executed by the Issuer in favour of the Republic and the Representative to be dated on or about the Closing Date (the "**Redemption Undertaking**") containing the form of redemption sale agreement (the "**Redemption Undertaking Sale Agreement**") to be entered into by the Republic and the Issuer in the circumstances set out in the Redemption Undertaking;
- (vi) a substitution undertaking deed executed by the Issuer in favour of the Republic and the Representative to be dated on or about the Closing Date (the "**Substitution Undertaking**") containing the form of transfer agreement (the "**Transfer Agreement**") to be entered into by the Republic and the Issuer in the circumstances set out in the Substitution Undertaking;
- (vii) the Representative Agreement; and
- (viii) the Paying Agency Agreement,

each as may be amended and restated from time to time.

The Issuer shall apply the proceeds of the issuance towards the acquisition of Lease Certificate Assets and, pursuant to Article 7/A of Law Number 4749, the Ministerial Decisions and the Board of Directors decision of the Issuer dated 1 June 2016 and numbered 8, once the Issuer acquires the Lease Certificate Assets, the Certificateholders shall have the right to receive from the Issuer the economic benefit of the Lease Certificate Assets.

The Issuer will hold its interests in the Lease Certificate Assets in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income accruing to the Issuer from the purchased Lease Certificate Assets, together with any capital arising from the disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to the Certificateholders.

These Conditions include summaries of, and are subject to, the detailed provisions of the Representative Agreement and the Paying Agency Agreement.

1. **Interpretation**

Words and expressions defined in the Representative Agreement and the Paying Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated. In addition, in these Conditions the following expressions have the following meanings:

"Additional Dissolution Distribution Amount" has the meaning given to it in Condition 9(b) (*Payment – Cessation/Continuation of Profit Entitlement*);

"Additional Lease Period" has the meaning given to it in the Purchase Undertaking;

"Additional Rental Amount" means the amount of rental accrued due and payable during any Additional Lease Period;

"Affected Loss Event Asset" means any of the Lease Assets in respect of which a Total Loss Event occurs;

"ALC Certificates" means any lease certificates issued from time to time by the Issuer in the domestic or international markets, such certificates being either: (i) based on assets acquired from the Republic and associated income arising from the lease of those assets to the Republic, and in each case such assets having been purchased by the Issuer and leased back to the Republic in accordance with Article 7/A of Law Number 4749; or (ii) based on any other structure involving the Issuer and the Republic that may have been approved, each in accordance with any law from time to time amending, supplementing or varying Article 7/A of Law Number 4749 or any new legislation allowing the same;

"Business Day" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets in London, Ankara and New York are open for general business;

"Certificateholder" means a person in whose name a Certificate is registered in the Register (or in the case of joint holders, the first named thereof) save that, for so long as the Certificates are represented by a Global Certificate, each person who has for the time being a particular aggregate face amount of such Certificates credited to his securities account in the records of DTC, Euroclear and/or Clearstream Luxembourg, as applicable, shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates for the purposes hereof other than for the purpose of payments in respect thereof, the right to which shall be vested, as against the Issuer, solely in the registered holder of such Global Certificate in accordance with and subject to the terms of the Representative Agreement and such Global Certificates and the expressions **"holder"** and **"holder of Certificates"** and related expressions shall (where appropriate) be construed accordingly;

"Clearstream, Luxembourg" means Clearstream Banking S.A.;

"Closing Date" means the date of issue of the Certificates;

"Definitive Certificates" means the Regulation S Definitive Certificates and the Rule 144A Definitive Certificates;

"Dissolution Date" means, as the case may be:

- (a) the Scheduled Dissolution Date;
- (b) the Dissolution Event Redemption Date; and
- (c) the date on which the Certificates are redeemed in accordance with the provisions of Condition 10(c) (*Capital Distributions – Dissolution following a Total Loss Event*);

"Dissolution Distribution Amount" means the sum of:

- (a) the outstanding face amount of the Certificates;
- (b) any accrued but unpaid Periodic Distribution Amounts; and
- (c) any Additional Dissolution Distribution Amount;

"Dissolution Event" has the meaning given to it in Condition 14 (*Dissolution Events*);

"Dissolution Event Redemption Date" has the meaning given to it in Condition 14 (*Dissolution Events*);

"Dissolution Request" has the meaning given to it in Condition 14 (*Dissolution Events*);

"Dispute" has the meaning given to it in Condition 21 (*Governing Law and Jurisdiction*);

"DTC" means The Depository Trust Company;

"Euroclear" means Euroclear Bank SA/NV;

"Exercise Notice" means an Exercise Notice given by or on behalf of the Issuer in accordance with the terms of the Purchase Undertaking;

"Exercise Price" means the aggregate of:

- (a) the outstanding face amount of the Certificates;
- (b) all accrued but unpaid Rental (or part thereof) relating to the Lease Assets (if any), to the extent not received by the Issuer in its capacity as Lessor under the Lease Agreement;

- (c) without duplication or double counting, an amount equal to any accrued but unpaid Services Charge Amount; and
- (d) without duplication or double counting, the costs and expenses of the Representative and the Agents.

"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;

"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, including any equivalent of any item listed at (i) to (iii) which is compliant with the principles of Islamic finance; 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:** (a) 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; (b) an obligation to the extent that it is owing only to an individual who is a Turkish citizen is not External Indebtedness; and (c) an obligation is deemed to be denominated in a Foreign Currency if the terms thereof or of any applicable governmental program 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;

"Extraordinary Resolution" means a resolution passed at a Meeting of the Certificateholders duly convened and held in accordance with Schedule 4 (*Provisions for Meetings of Certificateholders*) to the Representative Agreement by a majority consisting of at least 66⅔ per cent. of the votes cast;

"Foreign Currency" means any currency other than the lawful currency of the Republic;

"Global Certificate" means each of the Regulation S Global Certificates and/or the Rule 144A Global Certificates;

"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);

"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 Turkey or any monetary authority of Turkey, all as defined in the IMF's publication entitled "*International Financial Statistics*" or such other meanings as shall be formally adopted by the IMF from time to time;

"IMF" means the International Monetary Fund;

"Investment Company Act" means the United States Investment Company Act of 1940, as amended;

"Joint Lead Managers" means Emirates NBD P.J.S.C., HSBC Bank plc and Standard Chartered Bank and **"Joint Lead Manager"** means each of them;

"Lease" means the lease created pursuant to the Lease Agreement;

"Lease Assets" has the meaning given to it in Condition 6(a) (*The Asset Leasing Company – Summary*);

"Lease Certificate Assets" has the meaning given to it in Condition 6(a) (*The Asset Leasing Company – Summary*);

"Lease Commencement Date" means the Closing Date, being the date on which the Lease shall commence pursuant to the Lease Agreement;

"Lease End Date" means the Scheduled Dissolution Date, unless:

- (a) the Lease is terminated on an earlier date in accordance with the terms of the Lease Agreement or any other Transaction Document, in which case it shall mean the date on which such early termination becomes effective; or
- (b) the Lease End Date is extended in accordance with the Purchase Undertaking, in which case it shall mean the last day of the Additional Lease Period;

"Lease Period" means the period from, and including, a Rental Payment Date (or with respect to the first Lease Period, from, and including, the Lease Commencement Date) to, but excluding, the immediately following Rental Payment Date (or, with respect to the final Lease Period, the Lease End Date) and shall, where the context allows, include any Additional Lease Period.

"Lessee" has the meaning given to it in Condition 6(a) (*The Asset Leasing Company – Summary*);

"Lessor" has the meaning given to it in Condition 6(a) (*The Asset Leasing Company – Summary*);

"Liability" means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation in respect of taxes) and including any value added tax or similar tax charged or chargeable in respect thereof and legal or other fees and expenses on a full indemnity basis and references to **"Liabilities"** shall mean all of these;

"Lien" means any lien, mortgage, deed of trust, charge, pledge, hypothecation, security interest or other encumbrance;

"Major Maintenance and Structural Repair" means all structural repair and major maintenance (other than Ordinary Maintenance and Repair), including doing such acts or things and taking such steps to ensure that the Lease Assets suffer no damage, loss or diminution in value, without which the Lease Assets could not be reasonably and properly used by the Lessee;

"Meeting" means a meeting of the Certificateholders (whether duly convened or resumed following an adjournment);

"New Lease Assets" means the assets specified as such in a Substitution Notice and which shall only comprise of real estate assets which are compliant with the principles of Islamic finance;

"Ordinary Maintenance and Repair" means all repairs, replacements, acts, maintenance and upkeep works required for the general use and operation of the Lease Assets and to keep, repair, maintain and preserve the Lease Assets in good order, state and condition;

"Payment Business Day" means: (a) a day on which banks in the relevant place of surrender of any Certificate are open for presentation and payment of registered securities and for dealings in foreign currencies; and (b) in the case of payment by transfer to an account, any day which is a day on which commercial banks are open for general business in London, Ankara and New York;

"Periodic Distribution Amount" has the meaning given to it in Condition 8(b) (*Periodic Distribution Provisions – Determination of Periodic Distribution Amount*);

"Periodic Distribution Date" means the 8th day in December and June in each year, commencing on 8 December 2016 and ending on the Scheduled Dissolution Date (provided that, if any Periodic Distribution Date is not a Business Day, then payment will be made on the following Business Day);

"Permitted Lien" means:

- (a) any Lien on Foreign Currency (or deposits denominated in Foreign Currency) securing obligations with respect to a letter of credit issued 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 of 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 banker's 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, exploitation, sale or loss of, or damage to, such assets;
- (i) Liens on assets (other than official holdings of gold) in existence on the initial date of issuance of the Certificates **provided that** such Liens remain confined to the assets affected thereby on the initial date of issuance of the Certificates, and secure only those obligations so secured on the initial date of issuance of the Certificates;
- (j) any Lien arising in connection with contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals;

(k) any Lien or Liens which otherwise would not be permissible pursuant to the negative pledge and which secure(s) indebtedness in an aggregate amount not exceeding U.S.\$50,000,000 (or the equivalent thereof in other currencies or composite currency units); and

(l) any Lien arising in connection with the Prior Certificates;

"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 of any international organisation or agency;

"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;

"Potential Dissolution Event" means any condition, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

"Proceedings" has the meaning given to it in Condition 21 (*Governing Law and Jurisdiction*);

"Profit Rate" means 4.251 per cent. per annum;

"Proprietorship Taxes" means all Taxes in relation to the Lease Certificate Assets imposed, charged or levied by law, regulation or decree against a proprietor, but excluding all Taxes that are imposed, charged or levied by law, regulation or decree against a lessee or a tenant;

"QIB" means a "qualified institutional buyer" as defined in Rule 144A;

"QP" means a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act;

"Record Date" means the 15th calendar day (whether a Business Day or not) before the date on which any Dissolution Distribution Amount or Periodic Distribution Amount (as applicable) is due to be paid;

"Redemption and Cancellation Notice" means a redemption and cancellation notice in substantially the form of Schedule 1 (*Form of Redemption and Cancellation Notice*) to the Redemption Undertaking;

"Redemption Lease Assets" means those Lease Assets (as the Republic may select in its sole and absolute discretion in accordance with the terms of the Redemption Undertaking) specified as such by the Republic in a Redemption and Cancellation Notice which, for the avoidance of doubt, shall be the whole of any individual Lease Asset and not part of any individual Lease Asset;

"Redemption Sale Agreement" means an agreement to be executed by the Issuer and the Republic pursuant to the exercise of the Redemption Undertaking (if applicable) substantially in the form set out in Schedule 2 (*Form of Sale Agreement*) to the Redemption Undertaking;

"Register" means the register maintained by the Registrar on which, among other things, the names and addresses of the holders from time to time of the Certificates, together with the particulars of the Certificates held by them respectively, and all transfers of Certificates are recorded;

"Regulation S" means Regulation S under the Securities Act;

"Regulation S Definitive Certificates" means those Certificates which are offered and sold outside the United States to non U.S. persons in an "offshore transaction" (within the meaning of Regulation S) and for the time being are in substantially the form set out in Part C (*Form of Regulation S Definitive Certificate*) of Schedule 1 (*Form of Certificates*) to the Representative Agreement and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"Regulation S Global Certificates" means the global certificates offered and sold outside the United States to non U.S. persons in an "offshore transaction" (within the meaning of Regulation S) and in substantially the form set out in Part A (*Form of Regulation S Global Certificate*) of Schedule 1 (*Form of Certificates*) to the Representative Agreement and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"Rental" for each Lease Period means an amount equal to the aggregate of:

- (a) the Periodic Distribution Amount for the corresponding Periodic Distribution Period as determined in accordance with Condition 8(b) (*Periodic Distribution Provisions – Determination of Periodic Distribution Amount*); and
- (b) the Supplementary Rental (if any);

"Rental Payment Date" means the date which is the Business Day immediately preceding each Periodic Distribution Date and (if applicable) the last day of an Additional Lease Period;

"Republic Certificates" has the meaning given in Condition 13(b) (*Purchase and Cancellation of Certificates – Cancellation of Certificates held by the Republic*);

"Reserved Matter" has the meaning given to it in the Representative Agreement;

"Return Accumulation Period" means the period from (and including) a Periodic Distribution Date (or, in the case of the first Return Accumulation Period, the Closing Date) to (but excluding) the next (or, in the case of the first Return Accumulation Period, first) Periodic Distribution Date;

"Rule 144A" means Rule 144A under the Securities Act;

"Rule 144A Definitive Certificates" means those Certificates which are offered and sold within the United States to QIBs who are also QPs in reliance on the exemption from registration provided by Rule 144A and for the time being are in substantially the form set out in Part D (*Form of Rule 144A Definitive Certificate*) of Schedule 1 (*Form of Certificates*) to the Representative Agreement and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"Rule 144A Global Certificates" means the global certificates offered and sold within the United States to QIBs who are also QPs in reliance on the exemption from registration provided by Rule 144A and in substantially the form set out in Part B (*Form of Rule 144A Global Certificate*) of Schedule 1 (*Form of Certificates*) to the Representative Agreement and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"Scheduled Dissolution Date" means 8 June 2021;

"Securities Act" means the United States Securities Act of 1933, as amended;

"Seller" means the Republic in its capacity as seller of the Assets under the Sale Agreement;

"Self-Insurance" means any Takaful/Insurances maintained by the Servicing Agent self-insuring the Lease Assets in accordance with the Servicing Agency Agreement;

"Services" means the services relating to the Lease Assets to be provided by the Servicing Agent on behalf of the Lessor in respect of Major Maintenance and Structural Repair, Proprietorship Taxes and Takaful/Insurances, in accordance with the terms and conditions of the Servicing Agency Agreement;

"Services Charge Amount" means, in respect of a Lease Period, all payments made or incurred by the Servicing Agent in respect of the Services performed in relation to the Lease Assets during that Lease Period plus VAT (if any) payable on such amount;

"Servicing Agent" has the meaning given to it in Condition 6(a) (*The Asset Leasing Company – Summary*);

"Specified Denomination(s)" means a minimum denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;

"Substituted Lease Assets" means the assets specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Lease Assets belonging to the Issuer;

"Substitution Date" means the date specified as such in a Substitution Notice;

"Substitution Notice" means a substitution notice in substantially the form of Schedule 1 (*Form of Substitution Notice*) to the Substitution Undertaking;

"Supplementary Rental" means, in respect of a Lease Period, an amount equal to the Services Charge Amount and any value added tax payable in relation to such Services Charge Amount applicable to the immediately preceding Lease Period, save that no Supplementary Rental shall be payable on the first Rental Payment Date;

"Takaful/Insurance Coverage Amount" means an amount equal to the aggregate of:

- (a) the face amount of the Certificates;
- (b) an amount equal to at least thirty (30) days Rental payable under the Lease Agreement; and
- (c) without duplication or double counting, an amount equal to any Services Charge Amount outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets;

"Takaful/Insurance Proceeds" means the proceeds of a claim under the Takaful/Insurances, excluding any third party liability insurance proceeds or any environmental liability insurance proceeds, **provided that** the Servicing Agent shall not be required to enter into agreements with third parties for such insurances and that the Servicing Agent shall be permitted to self insure the Lease Assets;

"Takaful/Insurances" means the insurances in respect of the Lease Assets to be taken out by the Servicing Agent in accordance with the Servicing Agency Agreement;

"Taxes" has the meaning given to it in Condition 11 (*Taxation*);

"Total Loss Event" has the meaning given to it in Condition 10(c) (*Capital Distributions – Dissolution following a Total Loss Event*);

"Total Loss Shortfall Amount" has the meaning given to it in Condition 6(a) (*The Asset Leasing Company – Summary*);

"Transaction Account" has the meaning given to it in Condition 6(a) (*The Asset Leasing Company – Summary*);

"Transaction Documents" means the Representative Agreement, the Paying Agency Agreement, the Costs Undertaking Deed, the Servicing Agency Agreement, the Purchase Undertaking, the Substitution Undertaking, the Redemption Undertaking, the Sale Agreement, the Lease Agreement and the Certificates and any other agreements, deeds, undertakings, or documents entered into pursuant to any of the foregoing or which can be entered into by the parties to any of the foregoing from time to time and are designated as such by the parties thereto and the Representative;

"Treasury" means the Prime Ministry Undersecretariat of Treasury of Turkey; and

"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.

All references in these Conditions to **"U.S. dollars"**, **"U.S.\$"** and **"\$"** are to the lawful currency of the United States of America.

The rules of interpretation set out in the Representative Agreement shall apply to these Conditions as if set out herein, *mutatis mutandis*.

2. **Form, Denomination and Title**

(a) ***Form and Denomination***

The Certificates will be issued and shall be held in minimum denominations of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof, in the form of either Regulation S Certificates or Rule 144A Certificates.

Regulation S Certificates will be represented on issue by beneficial interests in one or more Regulation S Global Certificates, in fully registered form, which will be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. The Regulation S Certificates will be offered and sold to non U.S. persons in offshore transactions in reliance on Regulation S.

Rule 144A Certificates will be represented on issue by beneficial interests in one or more Rule 144A Global Certificates in fully registered form, which will be deposited with Citibank, N.A., London Branch as custodian for DTC and registered in the name of a nominee of DTC. The Rule 144A Global Certificates will be offered and sold within the United States to QIBs who are also QPs in transactions made in reliance on the exemption from registration provided by Rule 144A.

Ownership interests in the Regulation S Global Certificates and the Rule 144A Global Certificates (together, the **"Global Certificates"**) will be shown on, and transfers thereof will only be effected through, records maintained by the relevant clearing systems.

The Issuer shall issue Definitive Certificates in exchange for the Global Certificates only in accordance with the provisions thereof.

(b) ***Title***

Subject as otherwise provided in a Global Certificate and the definition of "Certificateholders", the Issuer and/or the Representative may (to the fullest extent permitted by applicable laws) deem and treat those persons in whose names any outstanding Certificates are for the time being registered (as set out in the Register) as the holder of any Certificate or of a particular face amount of Certificates, for all purposes (whether or not such Certificate or face amount shall be overdue and notwithstanding any notice of ownership thereof or of any trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Issuer and/or the Representative shall not be affected by any notice to the contrary and will not be liable for so treating the holder of any Certificate. All payments made to such holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for moneys payable in respect of such Certificate or face amount.

The Issuer and the Representative may call for and shall be at liberty to accept and place full reliance on (as sufficient evidence thereof and shall not be liable to any Certificateholder by reason only of either having accepted as valid or not having rejected) an original certificate or letter of confirmation purporting to be signed on behalf of DTC, Euroclear and/or Clearstream, Luxembourg or any other relevant clearing system to the effect that at any particular time or throughout any particular period any particular person is, was or will be shown in its records as having a particular nominal amount of Certificates credited to his securities account with the relevant clearing system.

3. **Transfers of Certificates**

(a) ***Transfers***

Subject to Condition 3(d) (*Closed Periods*) and Condition 3(e) (*Regulations*) and to the provisions of the Paying Agency Agreement, a Certificate may be transferred in whole or in an amount equal to the Specified Denomination(s) by depositing the Certificate, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

Beneficial interests in the Global Certificates shall be transferable only in accordance with the rules and procedures for the time being of the relevant clearing systems.

(b) ***Delivery of New Certificates***

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition 3(b), "**business day**" shall mean a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

(c) ***Formalities Free of Charge***

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or any Transfer Agent may require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

(d) ***Closed Periods***

No Certificateholder may require the transfer of a Certificate to be registered during the period of fifteen (15) days ending on (and including) the due date for any payment of any Dissolution Distribution Amount or any Periodic Distribution Amount.

(e) ***Regulations***

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Paying Agency Agreement (and as amended from time to time). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

Unless otherwise requested by him, each Certificateholder shall be entitled to receive, in accordance with Condition 2(b) (*Form, Denomination and Title – Title*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition (b) (*Transfers of Certificates – Delivery of New Certificates*).

4. **Status and Limited Recourse**

(a) ***Status***

Each Certificate will constitute a limited recourse obligation of the Issuer to pay each Certificateholder Periodic Distribution Amounts and any Dissolution Distribution Amount. Each Certificate will rank *pari passu*, without preference or priority, with all other Certificates issued in accordance with these Conditions. Each Certificate will evidence the entitlement of each Certificateholder to the economic benefit of the use of the Lease Certificate Assets on a *pro rata* basis and the income accruing to the Issuer from the purchased Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates.

(b) ***Limited Recourse***

The proceeds of the Lease Certificate Assets are the sole source of payments due in respect of the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Issuer, the Representative, the Republic, any of the Agents or any of their respective affiliates. Accordingly, by subscribing for or acquiring the Certificates, Certificateholders acknowledge that they will have no recourse to any assets of the Issuer (and/or its directors, officers, administrators, employees or shareholders) or the Republic (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Representative or the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Lease Certificate Assets to the extent their obligations under the Lease Certificate Assets have been exhausted in accordance with the Transaction Documents following which all obligations of the Issuer, the Republic, the Representative and the Agents shall be extinguished.

The Republic is obliged to make payments under the relevant Transaction Documents to which it is a party directly to the Issuer or to the Representative (pursuant to the Representative Agreement) and/or the Agents, as may be specified in the Transaction Documents. The Representative will, acting pursuant to the Purchase Undertaking, have direct recourse against the Republic to recover payments due to the Issuer from the Republic pursuant to such Transaction Documents.

The net proceeds of the exercise of the Purchase Undertaking with respect to the Lease Certificate Assets may not be sufficient to make all payments due in respect of the Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 15(i) (*Enforcement and Exercise of Rights*), no Certificateholder will have any claim against the Issuer (and/or its directors, officers or shareholders), the Republic (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Representative, the Agents or any of their respective affiliates, or against any assets (other than the Lease Certificate Assets in accordance with the provisions of the Transaction Documents) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. Under no circumstances shall the Issuer, the Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Lease Assets other than to the Republic or its designee in accordance with the Purchase Undertaking and the sole right of the Representative and the Certificateholders against the Issuer or the Republic shall be to enforce their respective obligations under the Transaction Documents. Subject to Condition 4(c) (*Status and Limited Recourse – Agreement of Certificateholders*), no Certificateholders will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Issuer (and/or its directors), the Representative, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

(c) ***Agreement of Certificateholders***

The rights of the Certificateholders hereunder are subject as follows:

- (i) no payment of any amount whatsoever shall be made by the Issuer or any of its agents on its behalf except to the extent funds are available therefor from the Lease Certificate Assets;
- (ii) no recourse shall be had by any person for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Issuer (and/or its directors, officers, administrators, employees or shareholders), the Republic (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Representative, any Agent or any of their respective affiliates to the extent the Lease Certificate Assets have been exhausted following which all obligations of the Issuer, the Republic, the Representative, any Agents and their respective affiliates shall be extinguished;
- (iii) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, no Certificateholder will institute against, or join with any other person in instituting against, the Issuer any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law;
- (iv) no recourse under any obligation, covenant or agreement contained in any Transaction Document shall be had against any shareholder, officer, employee or director of the Issuer, by the enforcement of any assessment or by any proceeding, by virtue of any statute or otherwise. The obligations of the Issuer under the Transaction Documents to which it is a party are corporate limited recourse obligations of the Issuer and no personal liability shall attach to or be incurred by the shareholders, officers, employees or directors of the Issuer save in the case of their wilful default or actual fraud;
- (v) no Certificateholder shall be entitled to claim or exercise any right of set off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and
- (vi) under no circumstances will the Issuer or the Representative be entitled to sell or shall the Representative or any Certificateholder be entitled to cause the sale or other disposition of any of the Lease Certificate Assets otherwise than to the Republic in accordance with the terms of the Transaction Documents and the Certificateholders shall only be entitled to enforce their rights against the Issuer under the Lease Certificate Assets in accordance with the Transaction Documents and the Representative shall only be entitled to enforce its rights against the Issuer or the Republic in accordance with the Transaction Documents.

Reference in these Conditions to wilful default or actual fraud, fraud or gross negligence means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party.

5. **Negative Pledge**

The Republic has covenanted and undertaken in the Purchase Undertaking that, so long as any Certificate remains outstanding, it will not create or permit to subsist: (i) any Lien (other than a Permitted Lien) for any purpose upon or with respect to any International Monetary Assets of the Republic; or (ii) 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 unless at the same time or prior

thereto, all amounts payable under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement are secured at least equally and rateably with such External Indebtedness.

6. **The Asset Leasing Company**

(a) ***Summary***

The Issuer confirms that it has been established as an asset leasing company incorporated in Turkey in accordance with Article 7/A of Law Number 4749 and the Ministerial Decision dated 17 August 2012. The Issuer confirms that it will hold the Lease Certificate Assets in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income accruing to the Issuer from the Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders.

Pursuant to the Sale Agreement, the Republic will sell, transfer and convey to the Issuer the Assets.

Pursuant to the Lease Agreement, the Issuer in its capacity as lessor of the Lease Assets (in such capacity, the "**Lessor**") will lease certain real estate assets to the Republic in its capacity as lessee of the Lease Assets (in such capacity, the "**Lessee**"). Such real estate assets shall be comprised of the Assets, as such assets may be repaired, refurbished, upgraded or replaced from time to time as a result of any Major Maintenance and Structural Repair and/or any Ordinary Maintenance and Repair or any substitution in accordance with the Substitution Undertaking, in which case the parties to the Lease Agreement shall amend Schedule 1 (*Assets*) to the Lease Agreement to reflect any such substitution (the "**Lease Assets**") **provided however that** Lease Assets shall not include any asset the title to which has been sold, transferred or otherwise conveyed to the Republic under the terms of the relevant Transaction Documents.

The Lessee will pay the Rental on each Rental Payment Date.

Under the Servicing Agency Agreement, the Issuer will appoint the Republic as the Lessor's agent (in such capacity, the "**Servicing Agent**") in respect of the Lease Assets.

The Republic will execute the Purchase Undertaking in favour of the Issuer and the Representative pursuant to which the Republic undertakes, following receipt of an Exercise Notice from the Issuer, to purchase all of the Issuer's interests, rights, benefits and entitlements in and to the relevant Lease Assets at the Exercise Price specified in the Exercise Notice.

If, following the receipt of an Exercise Notice pursuant to the Purchase Undertaking, the Republic fails to pay all or part of the Exercise Price on the due date for payment thereof: (i) the Republic shall irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to act as Servicing Agent in respect of the Lease Assets; and (ii) the Lease Agreement shall be deemed to be extended for a period from and including the date on which the Exercise Price was due to, but excluding the date on which the Exercise Price is paid in full in accordance with the terms of the Purchase Undertaking. In such circumstances, the Lessor shall be entitled to receive the Additional Rental Amount in respect of such period.

Upon the occurrence of a Total Loss Event: (i) the Lease shall automatically terminate and the Lessor will be entitled (in addition to any amounts payable pursuant to the Servicing Agency Agreement) to any due and unpaid Rental up to the date on which the Total Loss Event occurred; and (ii) the Certificates will be redeemed by the Issuer on the date specified in Condition 10(c) (*Capital Distributions – Dissolution following a Total Loss Event*). The Certificates will be redeemed in accordance with the order of priority set out in Condition 6(b) (*The Asset Leasing Company – Application of Proceeds from Lease Certificate Assets*) using: (i) the Takaful/Insurance Proceeds and the proceeds

from any Self-Insurance payable in respect of the Total Loss Event which are required to be paid into the Transaction Account by no later than close of business in the Republic on the 30th day after the occurrence of the Total Loss Event; and (ii) any Total Loss Shortfall Amount. If a Total Loss Event occurs and an amount (if any) less than the Takaful/Insurance Coverage Amount is credited to the Transaction Account (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the relevant Transaction Account being the "**Total Loss Shortfall Amount**"), and unless the Servicing Agent can show (in a final non appealable judgement by a court of competent jurisdiction) that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement, then the Servicing Agent will pay the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than the close of business in the Republic on the 31st day after the Total Loss Event has occurred. None of the Representative or any Agent is under a duty or obligation to determine or calculate the Exercise Price, the Total Loss Shortfall Amount or the Takaful/Insurance Coverage Amount.

The Issuer will execute the Redemption Undertaking in favour of the Republic and the Representative and will grant to the Republic the right, **provided that** a Redemption and Cancellation Notice has been served on the Issuer (copied to the Principal Paying Agent and the Representative) in accordance with the terms of the Redemption Undertaking, to require the Issuer to purchase Republic Certificates and the Issuer shall purchase and cancel such Republic Certificates in accordance with the Representative Agreement, the Redemption Undertaking and the Conditions. In consideration for the sale, transfer and conveyance of the Redemption Lease Assets by the Issuer to the Republic, the Republic may enter into a sale agreement to purchase the Lease Assets together with all of the Issuer's interests, rights, benefits and entitlements in and to certain of the Lease Assets (the "**Redemption Lease Assets**").

The Issuer will execute the Substitution Undertaking in favour of the Republic and the Representative pursuant to which the Republic has the right to require the Issuer to sell, transfer and convey on any Substitution Date the Issuer's interest, rights, benefits and entitlements in and to the Substituted Lease Assets or any part thereof to the Republic in consideration for the transfer and conveyance by the Republic to the Issuer of the New Lease Assets (pursuant to a transfer agreement). The Republic will be obliged to certify that the New Lease Assets are of a value which is equal to or greater than the value of the Substituted Lease Assets on the relevant Substitution Date.

In order to effect the substitution, the Issuer and the Republic will enter into a transfer agreement to effect the sale of the Substituted Lease Assets to the Republic and the sale of the New Lease Assets to the Issuer.

The Issuer will establish a non interest bearing transaction account in London or the city in which the specified office of the Principal Paying Agent is located (the "**Transaction Account**") in the name of the Issuer which shall be operated by the Principal Paying Agent on behalf of the Issuer into which: (i) the Republic will deposit all amounts due to the Issuer solely under the Lease Agreement, the Servicing Agency Agreement or the Purchase Undertaking, as the case may be; and (ii) the Representative will deposit all the proceeds of any action taken in accordance with Condition 15(i) (*Enforcement and Exercise of Rights*).

Pursuant to the Representative Agreement, the Issuer will declare that it will hold certain assets (the "**Lease Certificate Assets**"), consisting of:

- (i) all of the Issuer's rights, interest and benefit (present and future) in, to and under the Lease Assets;
- (ii) all monies standing to the credit of the Transaction Account;

(iii) all of the Issuer's rights, interest and benefit (present and future) in, to and under the Transaction Documents (excluding any representations given to the Issuer by the Republic pursuant to any of the Transaction Documents); and

(iv) all proceeds of the foregoing (which are held by the Issuer),

in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income accruing to the Issuer from the Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders on a *pro rata* basis in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates.

(b) ***Application of Proceeds from Lease Certificate Assets***

Pursuant to the Representative Agreement, the Issuer holds the Lease Certificate Assets in its own name and on its own behalf for the account and benefit of the Certificateholders and the income accruing to the Issuer from the Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders on a *pro rata* basis in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates. On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (i) *first*, in accordance with the terms of the Representative Agreement (to the extent not previously paid) to the Representative in respect of all amounts owing to it under the Transaction Documents in its capacity as Representative;
- (ii) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due but unpaid;
- (iii) *third*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and
- (iv) *fourth*, only if such payment is made on a Dissolution Date, payment of the residual amount (if any) to the Issuer.

7. **Covenants**

Subject to Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), the Issuer covenants that, amongst other things, for so long as any Certificate is outstanding, it shall not:

- (i) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents or in respect of any ALC Certificates;
- (ii) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any) and other than under or pursuant to any of the Transaction Documents or in respect of the Prior Certificates);
- (iii) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to

exist), any part of its interests in any of the Lease Certificate Assets except pursuant to any of the Transaction Documents;

- (iv) amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents;
- (v) act as agent in respect of any parties to this transaction other than the Certificateholders as provided in the Representative Agreement;
- (vi) have any subsidiaries or employees;
- (vii) redeem any of its shares or reduce its share capital or pay any dividend or make any other distribution to its shareholders;
- (viii) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (ix) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or
- (x) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (A) as provided for or permitted in the Transaction Documents;
 - (B) the ownership, management and disposal of the Lease Certificate Assets and Lease Assets as provided in the Transaction Documents;
 - (C) such other matters which are incidental thereto; and
 - (D) in respect of the Prior Certificates or future lease certificates authorised by ministerial decisions.

8. Periodic Distribution Provisions

(a) *Periodic Distribution Amount*

A Periodic Distribution Amount representing a defined share of the Rental paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Certificate Assets for the Certificates will be distributed by the Issuer to the Certificateholders in accordance with these Conditions.

(b) *Determination of Periodic Distribution Amount*

The Periodic Distribution Amount payable in respect of each Certificate for any Return Accumulation Period shall be an amount equal to the product of: (a) the Profit Rate; (b) the outstanding face amount of the relevant Certificate; and (c) 0.5 (such amount being the "**Periodic Distribution Amount**").

If any Periodic Distribution Amount is required to be calculated for a period other than a Return Accumulation Period, such Periodic Distribution Amount shall be calculated by multiplying: (a) the Profit Rate; (b) the face amount of the relevant Certificate; and (c) the number of days in the relevant period (calculated on the basis of twelve 30 day months) divided by 360.

9. Payment

(a) *Payments in Respect of Certificates*

Payment of any Periodic Distribution Amount or the Dissolution Distribution Amount will be made by the Principal Paying Agent in U.S. dollars, by wire transfer in

immediately available funds to the registered account of each Certificateholder or by check drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Distribution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and any Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of these Conditions, a Certificateholder's "**registered account**" means an account denominated in U.S. dollars maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date, and a Certificateholder's "**registered address**" means its address appearing on the Register at that time.

(b) ***Cessation/Continuation of Profit Entitlement***

Provided that, upon due presentation, payment is not improperly withheld or refused, no further amounts will be payable on any Certificate from and including the relevant Dissolution Date.

In the event that, upon due presentation, the Dissolution Distribution Amount is improperly withheld or refused, the Lease Agreement shall be deemed to be extended for a period from and including the date on which the Dissolution Distribution Amount was due to but excluding the date on which the Dissolution Distribution Amount is paid in full. In accordance with the terms of the Purchase Undertaking, the Republic shall continue to lease the Lease Assets from the Issuer (as Lessor) and will continue to act as Servicing Agent in respect of the Lease Assets until but excluding the date on which the Dissolution Distribution Amount is paid in full.

Certificateholders shall be entitled to payment of a defined share in the Additional Rental Amount received from the continuation of the leasing of the Lease Assets (such amount to be the "**Additional Dissolution Distribution Amount**") and the Additional Dissolution Distribution Amount shall be distributed by the Issuer to the Certificateholders as part of the Dissolution Distribution Amount in accordance with these Conditions.

Certificateholders hereby waive the right to receive any interest awarded by a court or regulatory authority under the terms of any judgment but, for the avoidance of doubt, such waiver shall not include a waiver of any right to receive the Additional Dissolution Distribution Amount nor shall it constitute a waiver by the Issuer of any right to receive payment of the Rental received from the continuation of the leasing of the Lease Assets.

(c) ***Payments subject to Applicable Laws***

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of this Condition 9.

(d) ***Payment only on a Payment Business Day***

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by check, the check will be mailed, in each case by the Principal Paying Agent, on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent (if required to do so).

If any date on which Periodic Distribution Amounts or Dissolution Distribution Amounts are due to be paid is not a Payment Business Day, the Issuer shall pay such Periodic Distribution Amounts or Dissolution Distribution Amounts on the next day that is a Payment Business Day and no additional Periodic Distribution Amount will accrue

on that payment. Certificateholders will therefore not be entitled to any additional Periodic Distribution Amount, Dissolution Distribution Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a check mailed in accordance with this Condition 9 arrives after the due date for payment.

If the amount of the Dissolution Distribution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount actually paid.

(e) ***Agents***

In acting under the Paying Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Issuer and (to the extent provided in the Representative Agreement and the Paying Agency Agreement) the Representative and do not assume any obligations towards or relationship of agency with any of the Certificateholders or any other party to the Transaction Documents.

The names of the initial Agents and their initial specified offices are set out in Schedule 1 (*The Specified Offices of the Agents*) to the Paying Agency Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents **provided that** it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) having its specified office in London; a Registrar and a Transfer Agent (which may be the same entity).

Notice of any such change or any change of any specified office shall be given to the Issuer and the Certificateholders in accordance with the provisions of the Paying Agency Agreement.

(f) ***Partial Payments***

In the case of partial payment upon presentation of a Certificate, unless a new Certificate has been issued in accordance with the terms of the Paying Agency Agreement, the Issuer shall procure that a statement indicating the amount and the date of such payment is enfaced on the relevant Certificate.

10. **Capital Distributions**

(a) ***Dissolution on the Scheduled Dissolution Date***

Unless the Certificates are previously redeemed or purchased and cancelled, the Issuer will redeem the Certificates at the Dissolution Distribution Amount on the Scheduled Dissolution Date.

(b) ***Dissolution following a Dissolution Event***

Upon the occurrence of a Dissolution Event, the Certificates shall become due and payable at the Dissolution Distribution Amount on the Dissolution Event Redemption Date and the Issuer shall redeem the Certificates at the Dissolution Distribution Amount on the Dissolution Event Redemption Date in accordance with Condition 14 (*Dissolution Events*) if the Conditions set out in Condition 14 (*Dissolution Events*) are satisfied.

(c) ***Dissolution following a Total Loss Event***

Upon the occurrence of a Total Loss Event, the Certificates will be redeemed (in whole, but not in part) by the Issuer on the date notified by the Principal Paying Agent in a notice given to the Representative and the Certificateholders in accordance with Condition 17 (*Notices*). The Certificates shall be redeemed at the Dissolution Distribution Amount using: (i) the Takaful/Insurance Proceeds and the proceeds from any Self-Insurance required to be paid into the Transaction Account by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement on or before the

30th day following the occurrence of a Total Loss Event (if any); and (ii) any Total Loss Shortfall Amount required to be paid into the Transaction Account by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement no later than the close of business in the Republic on the 31st day after the Total Loss Event has occurred. In the event that the Servicing Agent is able to pay either the Takaful/Insurance Proceeds or the proceeds from any Self-Insurance into the Transaction Account prior to the 30th day after the occurrence of a Total Loss Event, then the amount of the Takaful/Insurance Coverage Amount to be paid into the Transaction Account shall be reduced by an amount equal to the difference between the 30 days Rental payable under the Lease Agreement that would have been payable as part of the Takaful/Insurance Coverage Amount, and the actual number of days Rental that would have been payable under the Lease Agreement from the date of the Total Loss Event to the date of payment into the Transaction Account. This reduction in the amount of the Takaful/Insurance Coverage Amount payable into the Transaction Account shall operate as an incentive for the early recovery by the Servicing Agent of the Takaful/Insurance Proceeds, with any Takaful/Insurance Proceeds received by the Servicing Agent following payment of the reduced Takaful/Insurance Coverage Amount into the Transaction Account being for the Servicing Agent's sole account.

"Total Loss Event" means:

- (i) the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical; or
- (ii) the Lessor ceases to own the entirety of the Lease Assets other than in accordance with the terms of the Transaction Documents.

(d) ***No other Dissolution or Capital Distributions***

The Issuer shall not be entitled to redeem the Certificates, and the Certificateholders shall not be entitled to receive capital distributions, otherwise than as provided in this Condition 10 and Condition 14 (*Dissolution Events*).

(e) ***Cancellations***

All Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold by the Issuer.

(f) ***Effect of payment in full of Certificates***

Upon payment in full of all amounts due in respect of a Certificate, such Certificate shall cease to represent a right to receive the economic benefit of the use of the Lease Certificate Assets and no further amounts shall be payable in respect thereof.

(g) ***Compulsory sale***

The Issuer may compel any beneficial owner of an interest in a Rule 144A Certificate to sell its interest in such Rule 144A Certificate, or may sell such interest on behalf of such beneficial owner, if such beneficial owner is not a QIB and a QP.

11. **Taxation**

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any tax, levy, duty, registration fee or other charge or withholding of a similar nature imposed in the Republic ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the

Certificateholders, except that no such additional amount shall be payable in relation to any payment to any Certificateholder:

- (i) presented for payment (where presentation is required) by or on behalf of a holder who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (ii) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or
- (iii) presented for payment by or on behalf of a Certificateholder who would not be liable or subject to withholding or deduction or making a declaration of non residence or other similar claim for exemption to the relevant tax authority.

In these Conditions:

"Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Issuer on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 17 (*Notices*); and **"Relevant Jurisdiction"** means the Republic or, in each case, any political subdivision or authority thereof or therein having the power to tax.

The Lease Agreement and the Purchase Undertaking provide that payments thereunder by the Republic shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment by the Republic of additional amounts so that the full amount which would otherwise have been due and payable is received by the Issuer.

Further, in accordance with the terms of the Lease Agreement and the Purchase Undertaking, the Republic undertakes to pay such additional amounts as may be necessary pursuant to this Condition 11 so that the full amount due and payable by the Issuer in respect of the Certificates to the Certificateholders is received by the Issuer for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of this Condition 11.

12. **Prescription**

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within a period of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof. None of the Issuer, the Agents or the Representative shall be responsible or liable for any amounts so prescribed.

13. **Purchase and Cancellation of Certificates**

(a) ***Purchases***

The Republic may at any time purchase Certificates at any price in the open market or otherwise.

(b) ***Cancellation of Certificates held by the Republic***

Pursuant to the Redemption Undertaking, the Issuer has granted to the Republic the right to require the Issuer to, **provided that** the Republic has delivered a Redemption and Cancellation Notice to the Issuer in accordance with the terms of the Redemption Undertaking, purchase certain Certificates held by the Republic (the **"Republic Certificates"**) and the Issuer shall purchase and cancel such Republic Certificates in accordance with the Representative Agreement, the Redemption Undertaking and the

Conditions. In consideration for the purchase of the Republic Certificates, the Issuer shall enter into a sale agreement to sell, transfer and convey the Lease Assets together with all of its interests, rights, benefits and entitlements in and to certain of the Lease Assets (the "**Redemption Lease Assets**") to the Republic. The Issuer has agreed in the Representative Agreement and the Redemption Undertaking to execute all such documents and do such further acts and things as the Republic may from time to time require to give full effect to any surrender of the relevant Redemption Lease Assets and the cancellation of the relevant Republic Certificates.

14. **Dissolution Events**

Upon the occurrence of any of the following events ("**Dissolution Events**"):

- (i) a default is made in the payment of any Periodic Distribution Amount or the Dissolution Distribution Amount and such default is not cured within 30 days of the due date for payment;
- (ii) the Issuer defaults in the performance of any of its duties, obligations, undertakings or covenants under the Certificates or the Transaction Documents (other than the Paying Agency Agreement) to which it is a party, and, if such default is in the opinion of the Representative capable of remedy, such default shall continue for a period of 60 days after written notice thereof shall have been given to the Issuer and the Republic by the Representative;
- (iii) a Republic Event occurs;
- (iv) the Issuer repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document;
- (v) an order or decree is made or an effective resolution is passed for the winding up, liquidation, dissolution or administration of the Issuer;
- (vi) either: (a) the Issuer is (or is deemed by law or a court to be) insolvent or unable to pay its debts as they fall due; (b) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made); (c) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it; or (d) the Issuer ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent);
- (vii) any event occurs which under Turkish law has an analogous effect to any of the events referred to in paragraphs (v) and (vi) (inclusive) above;
- (viii) the Lessee has disposed of the whole of its leasehold interest under the Lease Agreement; or
- (ix) at any time it becomes unlawful for the Republic to perform or comply with any of its payment obligations under the Lease Agreement, the Purchase Undertaking or the Servicing Agency Agreement or any of the payment obligations of the Republic under the Lease Agreement, the Purchase Undertaking or the Servicing Agency Agreement cease to be legal, valid, binding and enforceable and such unlawfulness, illegality, invalidity, failure to be binding or lack of enforceability continues for a period of 12 months,

the Representative shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), upon receiving notice thereof under the Representative Agreement or otherwise becoming aware of a Dissolution Event, give notice in writing of the occurrence of such Dissolution Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such holders to indicate if they wish the Certificates to be redeemed.

If so requested in writing by the holders of at least 25 per cent. of the then outstanding aggregate face amount of the Certificates or if so directed by an Extraordinary Resolution of the Certificateholders (a "**Dissolution Request**"), the Representative shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer (with a copy to the Republic) of the Dissolution Request and, upon receipt of such notice, the Issuer shall promptly exercise its rights under the Purchase Undertaking by serving an Exercise Notice on the Republic in accordance with the terms of the Purchase Undertaking and use the proceeds of the resultant sale to redeem the Certificates at the Dissolution Distribution Amount on the date that is 2 Business Days after the date specified in such notice (the "**Dissolution Event Redemption Date**").

As set out in the Purchase Undertaking, each of the following events or circumstances shall constitute a "**Republic Event**":

- (i) the Republic defaults in the payment of any Rental under the Lease Agreement, the Total Loss Shortfall Amount under the Servicing Agency Agreement or the Exercise Price and such default is not cured within thirty (30) days of the due date for payment;
- (ii) the Republic defaults in the performance of any of its duties, obligations, undertakings or covenants under the Certificates or the Transaction Documents to which it is a party, other than those set forth in paragraph (i) above, and, if such default is in the opinion of the Representative capable of remedy, such default shall continue for a period of sixty (60) days after written notice thereof shall have been given to the Issuer and the Republic by the Representative;
- (iii) any External Indebtedness of the Republic in an aggregate principal amount in excess of U.S.\$40,000,000 (or the equivalent amount thereof in any other currency) becomes due and payable prior to its stated maturity otherwise than at the option of the Republic or any such amount of External Indebtedness is not paid, when due, (in accordance with any extension granted in any modification, consent or waiver by the holders of such External Indebtedness) or, as the case may be, within any applicable grace period;
- (iv) the Republic ceases to be a member of the IMF or of any successor (whether corporate or not) that performs the functions of, or functions similar to, the IMF;
- (v) the Republic announces its inability to pay its debts as they mature; and
- (vi) it becomes unlawful for the Republic to perform or comply with any of its payment obligations under any of the Transaction Documents.

15. **Enforcement and Exercise of Rights**

- (i) Upon the occurrence of a Dissolution Event, to the extent that the Dissolution Distribution Amount payable in respect of the Certificates has not been paid in full, subject to it being indemnified and/or secured and/or prefunded to its satisfaction, the Representative acting pursuant to the Representative Agreement and/or any other Transaction Document, as applicable, and further subject to Condition 15(ii), shall be entitled to take one or more of the following steps:
 - (A) enforce the provisions of the Purchase Undertaking against the Republic; and/or
 - (B) take such other steps as the Issuer or the Representative may consider necessary or desirable to exercise all of the rights of the Issuer or the Representative under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the Lease Certificate Assets as the Issuer is bound to make in accordance with the Representative Agreement.
- (ii) The Representative shall not be bound in any circumstances to take any action under this Condition 15 or to enforce the Lease Certificate Assets or take any action against the Issuer or the Republic under any Transaction Document to which either of the Issuer or the Republic (as applicable) is a party unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least 25 per cent. of the

then outstanding aggregate face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities which it may thereby render itself liable to incur or which it may incur by so doing.

- (iii) No Certificateholder shall be entitled to proceed directly against the Issuer or the Republic unless: (a) the Representative, having become bound so to proceed, fails to do so within thirty (30) Business Days of becoming so bound and such failure is continuing; and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Issuer or the Republic, as the case may be) holds at least 66⅔ per cent. of the then outstanding aggregate face amount of the Certificates.
- (iv) Notwithstanding any provision contained in any Transaction Document, under no circumstances shall the Issuer, the Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Lease Certificate Assets other than to the Republic or its designee in accordance with the Purchase Undertaking and the sole right of the Representative and the Certificateholders against the Issuer or of the Issuer and the Representative against the Republic shall be to enforce their respective obligations under the Transaction Documents.
- (v) The foregoing paragraphs in this Condition 15 are subject to this paragraph. After enforcing the Lease Certificate Assets and distributing the net proceeds of the Lease Certificate Assets in accordance with Condition 6(b) (*The Asset Leasing Company – Application of Proceeds from Lease Certificate Assets*), the obligations of the Issuer in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer (or any steps against the Representative) to recover any further sums in respect of the Certificates and the right to receive any unpaid sums shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding up of the Issuer.

16. **Replacement of Certificates**

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer, the Representative, the Registrar and the Principal Paying Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17. **Notices**

Save as provided in this Condition 17, notices to the Certificateholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day (being a day other than Friday, Saturday or Sunday) after the date of mailing.

Until such time as any Definitive Certificates are issued, so long as the Global Certificate representing the Certificates is held in its entirety on behalf of DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, the relevant notice may be delivered to the relevant clearing systems for communication by them to the Certificateholders. Any such notice shall be deemed to have been given to the Certificateholders on the day on which the said notice was given to the relevant clearing system.

The Issuer shall also ensure that notices are duly given in a manner which complies with the rules and regulations of any stock exchange on which the Certificates are for the time being listed. Any notice shall be deemed to have been given on the fourth day (being a day other than Friday, Saturday or Sunday) after being so mailed.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with the relevant Certificate or Certificates, with the Principal Paying Agent.

18. **Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination**

- (i) The Representative Agreement contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or of the rights of the Issuer, the Republic and/or the Certificateholders or the modification of any of the provisions of the Representative Agreement excluding any matters arising relating to the Prior Certificates. Such a meeting may be convened by the Issuer, the Republic or by the Representative and shall be convened by the Issuer or the Representative subject to it being indemnified and/or secured and/or prefunded to its satisfaction upon request in writing of Certificateholders holding not less than one tenth of the aggregate face amount of the Certificates then outstanding. The quorum at any meeting will be two or more persons present holding or representing in the aggregate more than 50 per cent. of the aggregate face amount of the Certificates then outstanding, except that any meeting the business of which includes a Reserved Matter (as defined in Schedule 4 (*Provisions for Meetings of Certificateholders*)) to the Representative Agreement, the quorum shall be two or more persons present holding or representing in the aggregate at least 75 per cent. of the aggregate face amount of the Certificates then outstanding or at any adjourned such meeting two or more persons present holding or representing in the aggregate not less than 25 per cent. of the then aggregate outstanding face amount of the Certificates. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 66⅔ of the votes cast and, if duly passed, will be binding on all Certificateholders, whether or not they are present at the meeting and whether or not voting.

For the purposes of any meetings of Certificateholders referred to above, where all the outstanding certificates are represented by a Global Certificate, a single voter appointed in relation thereto or being the holder of the Certificates thereby represented, will be deemed to be two voters for the purposes of forming a quorum.

- (ii) The Representative Agreement provides that a resolution in writing signed by or on behalf of all the holders of the Certificates outstanding who for the time being are entitled to receive notice of a meeting in accordance with Schedule 4 (*Provisions for Meetings of Certificateholders*) of the Representative Agreement shall for all purposes be valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more such Certificateholders.
- (iii) The Representative Agreement, any other Transaction Document and the Issuer's memorandum and articles of association may only be amended by the Issuer with the consent of the Representative and the Representative may agree, without the consent or sanction of the Certificateholders, to any modification of any of the Representative Agreement, any other Transaction Document or the Issuer's memorandum and articles of association if, in the opinion of the Representative: (i) such modification is of a formal, minor or technical nature; (ii) such modification is made to correct a manifest error; or (iii) such modification is not materially prejudicial to the interests of the outstanding Certificateholders and is other than in respect of a Reserved Matter or any provisions of the Representative Agreement referred to in the definition of a Reserved Matter. Any such modification may be made on such terms and subject to such conditions (if any) as the Representative may determine, shall be binding on the Certificateholders and, unless the Representative otherwise decides, shall be notified by the Issuer to the Certificateholders in accordance with Condition 17 (*Notices*) as soon as practicable thereafter.
- (iv) The Representative may, without the consent or sanction of the Certificateholders and without prejudice to its rights in respect of any subsequent breach from time to time and at any time: (i) give its consent under these Conditions or any other Transaction Document; or (ii) agree to waive or to authorise on such terms and subject to such conditions (if any) as the Representative may determine any breach or proposed breach of any provision of the Representative Agreement or any other Transaction Document;

or (iii) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, **provided that:** (A) in the opinion of the Representative, such consent, waiver, authorisation or determination is not materially prejudicial to the interests of the outstanding Certificateholders; and (B) the Representative will not do so in contravention of an express direction given by Extraordinary Resolution or a request made pursuant to Condition 14 (*Dissolution Events*). No such direction or request will affect a previous waiver, authorisation or determination. Any such waiver, authorisation or determination shall be binding on the Certificateholders and unless the Representative otherwise requires, shall be notified by the Issuer to the Certificateholders in accordance with Condition 17 (*Notices*) as soon as practicable thereafter.

- (v) In connection with the exercise by it of any of its powers, obligations, authorities and discretions under the Representative Agreement (including, without limitation, any modification), the Representative shall have regard to the general interests of the Certificateholders as a class and shall not have regard to any interest arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Certificateholders (whatever their number) resulting from them being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub division thereof or taxing jurisdiction and the Representative shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Issuer, the Representative, the Republic or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders (except, in the case of the Issuer and the Republic, to the extent already provided for in Condition 11 (*Taxation*)).

19. **Indemnification and Liability of The Issuer and The Representative**

The Representative Agreement contains provisions for the indemnification of the Representative in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction. In particular, in connection with the exercise of any of its rights in respect of the Lease Certificate Assets or any other right it may have pursuant to the Representative Agreement, the Representative shall in no circumstances be bound to take any action unless directed to do so in accordance with Condition 14 (*Dissolution Events*) or Condition 15(i) (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

The Representative makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer or the Republic under the Transaction Documents to which each of them is a party and shall not under any circumstances have any Liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by the Republic but are not so paid and shall not in any circumstances have any Liability arising from the Lease Certificate Assets other than as expressly provided in these Conditions or in the Representative Agreement.

The Representative may rely, without any liability to the Certificateholders on a report, confirmation, certificate or any advice of any lawyers, accountants, financial advisers, financial institution, auditors, insolvency officials or any other expert (whether or not addressed to the Representative and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Representative or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise) in accordance with or for the purposes of the Representative Agreement or the other relevant Transaction Documents. The Representative may accept and shall be entitled to rely on any such report, confirmation, certificate or advice as sufficient evidence of the facts stated therein and such report, confirmation, certificate or advice shall be binding on the Issuer and the Certificateholders. The Representative shall not be bound in any such case to call for further evidence or be responsible for any Liability or inconvenience that may be occasioned by its failure to do so.

The Representative is exempted from: (a) any Liability in respect of any loss or theft of the Lease Certificate Assets or any cash (as applicable); (b) any obligation to insure the Lease Certificate Assets or any cash; and (c) any claim arising from the fact that the Lease Certificate Assets or any cash are held by or on behalf of the Issuer or on deposit or in an account with any depositary or account bank or clearing system or are registered in the name of the Issuer or its nominee, unless such loss or theft or claim arises as a result of gross negligence, wilful default or fraud by the Representative, as the case may be.

Nothing shall, in any case where the Representative has failed to show the degree of care and diligence required of it (having regard to the powers, authorities and discretions conferred on it by the Representative Agreement), exempt the Representative from or indemnify itself against any Liability for gross negligence, wilful default or fraud of which it may be guilty in relation to its duties under the Representative Agreement.

The Representative shall be subject to such duties and only such duties as are specifically set forth in the Transaction Documents to which it is a party, **provided that** it is only subject to such duties with which it expressly agrees to comply as Representative and no duties of the Issuer (in its capacity as Issuer) shall be imposed on the Representative by virtue of acting as trustee for itself and the Certificateholders pursuant to the Representative Agreement and no implied duties, covenants, undertakings or obligations shall be read into these Conditions against the Issuer or the Representative.

20. **Contracts (Rights of Third Parties) Act 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, except and to the extent that these Conditions expressly provide for such Act to apply to any of its terms, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. **Governing Law and Jurisdiction**

- (i) **Governing Law:** The Certificates (including these Conditions) and any non contractual or other obligations arising out of or in connection with them (including the remaining provisions of this Condition 21) are governed by, and shall be construed in accordance with, English law.
- (ii) **Jurisdiction:** The courts of England and Wales, sitting in London shall have exclusive jurisdiction to settle any dispute, controversy or claim arising from or connected with the Certificates (including these Conditions), the Representative Agreement and the Paying Agency Agreement (a "**Dispute**").

The Issuer has agreed that the previous sentence does not prevent the Issuer or the Representative from taking Proceedings relating to a Dispute in any court of the Republic with jurisdiction.

"**Proceedings**" mean any suit, action or proceedings arising out of, or in connection with, any Transaction Document.

- (iii) **Service of Process:** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Republic's Economic Counsellor at its office at the Turkish Embassy Office of the Economic Counsellor, 43 Belgrave Square, SW1X 8PA, London, United Kingdom or, if different, its office for the time being. The Issuer expressly waives any right to object to service of process effected as provided herein, whether on the basis of the Vienna Convention on Diplomatic Relations and/or the Vienna Convention on Consular Relations or otherwise. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Representative shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer.

Nothing in this Condition shall affect the right of any party to serve process in any other manner permitted by law. This Condition applies to Proceedings in England.

- (iv) **Waiver:** Under the Transaction Documents to which it is a party, the Republic irrevocably waives, to the fullest extent permitted by applicable law and public policy but subject to the reservations in this sub paragraph (iv), any immunity from jurisdiction to which it might otherwise be entitled in any Proceedings which may be brought in any of the courts, it being understood that under current Turkish law no execution or attachment or any other legal process in the nature thereof can be issued out of any court in the Republic for enforcement of any judgment or order against the Republic. The foregoing waiver constitutes only a limited and specific waiver for the purposes of the Transaction Documents and it is not intended to be and under no circumstances should be interpreted as a general waiver by the Republic or a waiver with respect to proceedings unrelated to the Transaction Documents or the Certificates. In addition, notwithstanding the foregoing, the Republic does not waive the right to immunity with regards to the following:
- (A) actions brought against the Issuer or the Republic under U.S. federal securities laws or any securities laws of any other jurisdiction;
 - (B) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961;
 - (C) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963;
 - (D) any property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere; and
 - (E) military property or military assets or property or assets of the Republic related thereto.
- (v) **Final Judgment:** Under the Transaction Documents to which it is a party, the Republic irrevocably agrees to be bound by any final judgment rendered against it in respect of any Proceeding from which no appeal has been taken or is available, it being understood that under current Turkish law, judgments obtained against the Republic in a court of a reciprocating country in respect of any sum payable by it under the Transaction Documents may be enforced by the courts of the Republic **provided that** the relevant conditions specified in the International Private and Procedure Law (Law No. 5718) are satisfied.
- (vi) **Judgment Interest:** Under the Transaction Documents, each party agrees that if any Proceedings are brought by or on behalf of any other party, each party agrees it will: (a) not claim judgment interest under, or in connection with, such Proceedings; and (b) to the fullest extent permitted by law, waive all and any entitlement it may have to judgment interest awarded in its favour by any court as a result of such Proceedings.

GLOBAL CERTIFICATES

Each Global Certificate contains provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the relevant Global Certificate, some of which modify the effect of the Conditions. The following is a summary of those provisions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.

1. **Form of the Certificates**

The Certificates sold in offshore transactions in reliance on Regulation S (the "**Regulation S Certificates**") will be represented by one or more global Regulation S certificates in fully registered form (the "**Regulation S Global Certificates**"). Beneficial interests in a Regulation S Global Certificate may only be offered or sold to non U.S. persons outside the United States in reliance of Regulation S and may not be held otherwise than through Euroclear or Clearstream, Luxembourg. Such Regulation S Global Certificate will bear a legend regarding such restrictions on transfer. See "*Clearance and Settlement—Payments and relationship of participants with clearing systems*".

The Certificates sold within the United States to QIBs who are also QPs in reliance on Rule 144A (the "**Rule 144A Certificates**") will be represented by one or more global Rule 144A certificates in fully registered form (the "**Rule 144A Global Certificates**"), which will be deposited with a custodian for, and will be registered in the name of a nominee for, DTC. Beneficial interests in the Rule 144A Global Certificates may only be held through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See "*Clearance and Settlement—Payments and relationship of participants with clearing systems*". Beneficial interests in the Rule 144A Global Certificates may only be held by QIBs that are also QPs, holding their interests for their own account or for the account of one or more QIBs, each of which are also QPs. By acquisition of a beneficial interest in the Rule 144A Global Certificates, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Certificates. See further "*Transfer Restrictions*".

The Regulation S Global Certificates and the Rule 144A Global Certificates are referred to herein as the "**Global Certificates**". Beneficial interests in the Global Certificates will be subject to certain restrictions on transfer set out therein and in the Paying Agency Agreement and such Global Certificates will bear a legend as set out under "*Transfer Restrictions*".

No beneficial interest in the Regulation S Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Certificates unless: (i) the transfer is to a person that is both a QIB and a QP; (ii) such transfer is made in reliance on Rule 144A; and (iii) the transferor provides a Transfer Agent or the Registrar with a written certification substantially in the form set out in the Paying Agency Agreement to the effect that the transferor reasonably believes that the transferee is both a QIB and a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Rule 144A Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Certificates unless: (i) the transfer is being made to a non U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; and (ii) the transferor provides a Transfer Agent or the Registrar with a written certification substantially in the form set out in the Paying Agency Agreement to the effect that the transfer is being made to a non U.S. person in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificates that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificates will, upon transfer, cease to be an interest in the Regulation S Global Certificates and become an interest in the Rule 144A Global Certificates, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificates for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificates

that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificates will, upon transfer, cease to be an interest in the Rule 144A Global Certificates and become an interest in the Regulation S Global Certificates and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificates for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Certificates, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Upon receipt of the Global Certificates, the relevant clearing system or the custodian will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Certificate to the accounts of persons who have accounts with such clearing system. Ownership of beneficial interests in Global Certificates will be limited to persons who have accounts with the relevant clearing system or persons who hold interests through participants, including Euroclear and Clearstream, Luxembourg in the case of DTC. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Certificates.

2. **Holders**

For so long as all of the Certificates are represented by one or more of the Global Certificates and each Global Certificate is held on behalf of DTC, Euroclear and/or Clearstream, Luxembourg or their respective nominees, each person (other than another clearing system) who has for the time being a particular aggregate face amount of such Certificates credited to his securities account in the records of Euroclear or Clearstream, Luxembourg or, as the case may be, DTC or its nominee (each, a "**Certificateholder**") (in which regard any certificate or other document issued by such clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates (and the expression "**Certificateholders**" and references to "**holding of Certificates**" and to "**holder of Certificates**" shall be construed accordingly) for all purposes other than with respect to payments on such Certificates, the right to which shall be vested, as against the Issuer and the Representative, solely in the registered holder of the relevant Global Certificate in accordance with and subject to its terms. Each Certificateholder must look solely to the relevant clearing system, for its share of each payment made to the registered holder of the relevant Global Certificate.

3. **Cancellation**

Cancellation of any Certificate represented by a Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register and by annotation of the appropriate schedule to that Global Certificate, subject to the rules and procedures of the relevant clearing system.

4. **Payments**

Payments of the Dissolution Distribution Amount, any Periodic Distribution Amount and any amounts payable in respect of Certificates represented by a Global Certificate will be made upon presentation and, at dissolution, surrender of the relevant Global Certificate at the specified office of the Principal Paying Agent or to the order of the Registrar or such other office as may be specified by the Registrar, all subject to and in accordance with the Conditions, the Representative Agreement and the Paying Agency Agreement.

Distributions of amounts with respect to book entry interests in the Certificates held through DTC, Euroclear and/or Clearstream, Luxembourg or their respective nominees will be credited to

the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

5. **Notices**

So long as all the Certificates are represented by one or more of the Global Certificates and each Global Certificate is held on behalf of DTC, Euroclear and/or Clearstream, Luxembourg or their respective nominees, notices to Certificateholders may be given by delivery of the relevant notice to the relevant clearing systems for communication to entitled holders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which such notice is delivered to the relevant clearing systems.

6. **Registration of Title**

The Registrar will not register title to the Certificates in a name other than that of a nominee for the relevant clearing system for a period of fifteen calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

7. **Transfers**

Transfers of book entry interests in the Certificates will be effected through the records of Euroclear, Clearstream, Luxembourg and/or DTC (and their respective direct and indirect participants) in accordance with their respective rules and procedures.

8. **Exchange for Definitive Certificates**

Exchange

The Rule 144A Global Certificates will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form ("**Rule 144A Definitive Certificates**") and the Regulation S Global Certificates will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form ("**Regulation S Definitive Certificates**" and, together with the Rule 144A Definitive Certificates, the "**Definitive Certificates**") upon the occurrence of an Exchange Event.

For these purposes, "**Exchange Event**" means that: (i) in the case of the Global Certificates registered in the name of a nominee for DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Certificates or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such and no qualified successor clearing system satisfactory to the Representative has been identified within 90 days of receipt of such notice from DTC; or (ii) in the case of the Global Certificates registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available.

In exchange for the relevant Global Certificate, as provided in the Paying Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate face amount of duly executed Definitive Certificates in or substantially in the form set out in the Representative Agreement.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the

Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the Registrar with: (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Certificates; and (ii) in the case of the Rule 144A Global Certificates only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a written certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB and a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Certificates shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends and transfers

The holder of a Definitive Certificate may transfer the Certificates represented thereby in whole or in part in the applicable Specified Denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Definitive Certificate, the Issuer will deliver only Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Rule 144A Definitive Certificates will bear the same (or substantially the same) legend as the legend for the Rule 144A Global Certificates set out under "*Transfer Restrictions*". The Rule 144A Definitive Certificates may not at any time be held by or on behalf of U.S. persons (as defined in Regulation S) that are not QIBs who are also QPs. Before any Regulation S Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Rule 144A Definitive Certificate, the transferor will be required to provide the Registrar with a written certification substantially in the form set out in the Paying Agency Agreement to the effect that the transferor reasonably believes that the transfer is: (i) to a person that is a QIB and a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP; and (ii) in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Regulation S Definitive Certificates will bear the same (or substantially the same) legend as the legend for the Regulation S Global Certificates set out under "*Transfer Restrictions*". Before any Rule 144A Definitive Certificates may be resold or otherwise transferred to a person who takes delivery in the form of a Regulation S Definitive Certificate, the transferor will be required to provide the Registrar with a written certification substantially in the form set out in the Paying Agency Agreement to the effect that the transfer is being made to a non U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

RATINGS

It is a condition of the issuance of the Certificates that the Certificates are, upon issue, assigned a rating of BBB- by Fitch and Baa3 by Moody's.

A rating is not a recommendation to buy, sell or hold the Certificates and may be subject to suspension, reduction or withdrawal at any time by the assigning rating organisation. A suspension, revision or withdrawal of the ratings assigned to the Certificates may adversely affect the market price of the Certificates. See *"Risk Factors—Risks relating to the Certificates—The ratings on the Certificates may be changed at any time and may adversely affect the market value of the Certificates."*

THE ISSUER

The Issuer was validly established in the Republic on 17 August 2012, with its office at İnönü Bulvarı No: 36, Kat: 13 06510 Emek, Ankara, Turkey, and telephone number +90 312 204 7364. The Issuer was established as an asset leasing company incorporated in Turkey in accordance with, and to operate in conformity with, Article 7/A of Law Number 4749 and the Ministerial Decision dated 17 August 2012 for the purpose of participating in the transactions contemplated by the Transaction Documents as well as future issuances of lease certificates to the extent authorised by ministerial decisions and agreed by the Board of Directors of the Issuer. The establishment of the Issuer was published in the Trade Registry Gazette dated 24 June 2013 and numbered 8348.

The Issuer is wholly-owned by the Republic. Any conflict of interest between the Republic and the Issuer is managed through the appointment of an independent third party which acts as representative of the Certificateholders and has certain powers pursuant to the Representative Agreement to compel the Issuer to act on behalf of the Certificateholders.

Business of the Issuer

The Issuer has no prior operating history or prior business other than in connection with the issuance of the Prior Certificates and will not have any substantial liabilities other than in connection with the issue of the Certificates or the Prior Certificates. The Certificates are the obligations of the Issuer alone.

The objectives of the Issuer are primarily to enter into: (i) the transactions related to the Prior Certificates; (ii) the transactions contemplated by the Transaction Documents; and (iii) future issuances of lease certificates to the extent authorised by ministerial decisions and agreed by the Board of Directors of the Issuer. To satisfy such purposes, the Issuer may enter into the Transaction Documents and other agreements necessary for the performance of its obligations related to the Prior Certificates and under the transactions contemplated in these, and undertake activities pursuant to or that are consistent with the transactions and documents referred to in this Prospectus.

The Issuer has not engaged, since its establishment, in any material activities other than those regarding or incidental to the issue of the Prior Certificates or the Certificates and the matters contemplated in this Prospectus and the Transaction Documents and the authorisation of its entry into the other transactions and documents referred to in this Prospectus to which it is, or will be, a party.

The Issuer has no subsidiaries.

The Issuer's authorised share capital is TL50,000.

Pursuant to the terms of the Transaction Documents, the Issuer may not issue any securities other than the Prior Certificates, the Certificates or future lease certificates authorised by ministerial decisions or otherwise incur indebtedness.

Financial Statements

The Issuer has agreed that, for so long as any Certificates are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it will during any period that it is neither subject to sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of Certificates or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Board of Directors

The directors of the Issuer and their principal occupations are as follows:

Director	Principal Occupation	Business Address
Cavit Dağdaş	Acting Undersecretary of the Turkish Treasury	T.C Başbakanlık Hazine Müsteşarlığı İnönü Bulvarı No: 36 Kat: 13 06510 Emek, Ankara, Turkey

Director	Principal Occupation	Business Address
Hakan Toka	Director General of Foreign Economic Relations	T.C Bařbakanlık Hazine Msteřarlıęı İnön Bulvarı No: 36 Kat: 13 06510 Emek, Ankara, Turkey
Tařkin Temiz	Director General of Public Finance	T.C Bařbakanlık Hazine Msteřarlıęı İnön Bulvarı No: 36 Kat: 13 06510 Emek, Ankara, Turkey

The Issuer has no employees and is not expected to have any employees during the term of the Certificates.

Directors' Interests

No director listed above has any interest in the promotion of, or any property acquired or proposed to be acquired by, the Issuer and no director has any conflict of interest and/or any potential conflict of interest between any of its duties to the Issuer and its private interests.

GENERAL DESCRIPTION OF THE LEASE CERTIFICATE ASSETS

Description of the Lease Certificate Assets

To the extent permitted by Article 7/A of Law Number 4749 and the Ministerial Decisions, the Representative Agreement and the Conditions, each Certificate will evidence the entitlement of each Certificateholder, upon issue, to a right to receive the economic benefit of the use of the Lease Certificate Assets on a *pro rata* basis in the proportion which the face amount of such Certificate bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates.

Pursuant to the Lease Agreement, periodic rental payments (in the same currency as the Certificates) received by the Issuer from the Republic at regular intervals in respect of the Lease Assets will be used by the Issuer to pay the Periodic Distribution Amounts to Certificateholders. The Lease Assets comprise real estate property located in Ankara, Turkey situated on a 732,033 square metre lot/parcel. The composition of the Lease Assets may change over the life of the Certificates, as such Lease Assets may be substituted by other assets of at least equal or greater value, pursuant to the terms of the Substitution Undertaking. Certain Turkish ministries and governmental departments have existing allocation rights over the Lease Certificate Assets.

Sale and Lease Back of the Lease Assets

Pursuant to the terms of the Sale Agreement, the Republic will sell all of its rights, titles, interests and benefits in and to the Lease Assets to the Issuer in consideration for a sale price equal to the net issuance proceeds. Pursuant to the terms of the Lease Agreement, the Issuer will lease the Lease Assets to the Republic for a term commencing on the Closing Date and ending on the Scheduled Dissolution Date.

The sale of the Lease Certificate Assets pursuant to the Sale Agreement and the resale of the Lease Certificate Assets pursuant to the Purchase Undertaking will be registered with the Title Deeds Office (or equivalent) in the Republic. The Lease Agreement does not need to be registered with the Title Deeds Office (or equivalent).

Limited Recourse

Under no circumstances shall the Issuer, the Representative or any Certificateholder have any right to cause the sale or other disposition of the Lease Certificate Assets except pursuant to the Transaction Documents (which includes the Purchase Undertaking) and the Issuer, the Representative and the Certificateholders shall have the right to enforce the obligations of the Republic to perform its obligations under the remaining Transaction Documents.

Certificateholders, by subscribing for or acquiring Certificates, acknowledge that no recourse may be had for the payment of any amount owing in respect of any Certificates against the Issuer or the Representative (to the extent each of them fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the expected amounts from the Lease Certificate Assets to the extent that the Lease Certificate Assets have been extinguished. Certificateholders should note that through, *inter alia*, the Purchase Undertaking, the Issuer and the Representative will have recourse to the Republic and the ability of the Issuer to pay the amounts due in respect of the Certificates will ultimately be dependent on the Republic.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of the material provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Issuer and the Paying Agents (as defined in the Conditions).

Sale Agreement

Pursuant to a sale and purchase agreement (the "**Sale Agreement**") to be dated on or about the Closing Date between, amongst others, the Issuer as purchaser and the Republic as seller (in such capacity, the "**Seller**"), the Seller will sell, transfer and convey to the Issuer its rights, title, interest and benefits in some or all of certain real estate assets in Turkey owned by the Republic (the "**Assets**"). Following the sale of the Assets, the assets will be held by the Issuer: (i) on its own behalf and for the account and benefit of the Certificateholders; and (ii) in a manner that is separate and segregated from the assets that are held by the Issuer in connection with the Prior Certificates. The value of the Assets to be sold is calculated, as of the Closing Date, to be at least equal to or greater than the purchase price (which shall be an amount equal to the proceeds received by the Issuer in connection with the issue of the Certificates by the Issuer) to the Republic in U.S. dollars in freely available funds (inclusive of any applicable Taxes) for value on the date of the Sale Agreement in consideration for the sale, transfer and conveyance of the Assets by the Seller to the Issuer.

The Sale Agreement will be governed by, and construed in accordance with, the laws of the Republic.

Lease Agreement

Pursuant to a lease agreement (the "**Lease Agreement**") to be dated on or about the Closing Date between, amongst others, the Issuer as lessor (in such capacity, the "**Lessor**") and the Republic as lessee (in its capacity as lessee, the "**Lessee**"), the Lessor has agreed to lease to the Lessee, and the Lessee has agreed to lease from the Lessor, the Lease Assets during the term of the lease. The term of the lease will commence on the date of the Lease Agreement and end on the Scheduled Dissolution Date unless: (a) the lease is terminated earlier in accordance with the terms of the Lease Agreement or any other Transaction Document, in which case it will terminate on the date when such early termination becomes effective; or (b) the lease is extended in accordance with the terms of the Purchase Undertaking (see the section entitled "*Purchase Undertaking*" below for further details), in which case it shall end on the last day of the Additional Lease Period which, save as provided below in respect of a Total Loss Event, will correspond to the period during which any Certificates remain outstanding.

During the term of the lease, the Lessee will agree to pay to the Lessor the rental payments specified in the Lease Agreement for the lease term as specified in the Lease Agreement.

The rental payments due under the Lease Agreement in respect of the Lease Assets will not be less than the Periodic Distribution Amounts payable on the Periodic Distribution Dates in respect of the Certificates.

Under the terms of the Lease Agreement, to the full extent permitted by law, the Lessee has agreed to release from liability, and has agreed that no liability shall attach to the Lessor, the Representative and each of their respective directors and officers (together, the "**Compensated Persons**") as against the Lessee or any third party, in contract or otherwise, for any loss, injury, damage, cost, expense, claim or demand occurring on, or caused directly or indirectly by or due to the usage of, any part of the Lease Assets, and the relevant Compensated Person shall not be liable to reimburse or compensate the Lessee in respect of any claim made against the Lessee for any such loss, injury, damage, cost, expense, claim or demand.

If a Total Loss Event occurs with respect to the Lease Assets, then the lease in relation to such Lease Assets shall automatically terminate and the Lessor will be entitled to all Takaful/Insurance Proceeds or the Takaful/Insurance Coverage Amount, as the case may be, payable as a result of the Total Loss Event together with any accrued and unpaid rental payments to the date on which the Total Loss Event occurred. See the section entitled "*Servicing Agency Agreement*" below for further details.

The Lessee shall, at its own cost and expense, be responsible for performing or procuring the performance of all Ordinary Maintenance and Repair required for the Lease Assets. The Lessor shall be responsible

for: (i) the performance of all Major Maintenance and Structural Repair; (ii) the payment of Proprietorship Taxes (if any); and (iii) self insuring or obtaining insurance for the Lease Assets, to the extent that it is reasonable and commercially practicable, in a manner which is compliant with the principles of Islamic finance, and the Lessee acknowledges that the Lessor may procure that the Servicing Agent, in accordance with the terms and conditions set out in the Servicing Agency Agreement, perform, or procure the performance of, all Major Maintenance and Structural Repair and the payment of such Proprietorship Taxes (if any) and self-insuring or obtaining insurance for the Lease Assets on behalf of the Lessor.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid in full without any set off (save as provided in the Servicing Agency Agreement) or counterclaim of any kind and without any deduction or withholding for or on account of Tax unless the deduction or withholding is imposed or levied by or on behalf of any relevant taxing authority, in which event the Lessee shall forthwith pay to the Lessor such additional amount so that the net amount received by the Lessor will equal the full amount which would have been received by it had no such deduction or withholding been made.

Under the Lease Agreement, the Lessee bears the entire risk of loss of or damage to the relevant Lease Assets or any part thereof arising from the usage or operation thereof by the Lessee. In addition, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee's use or operation of the Lease Assets.

Rentals shall cease to accrue under the lease with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the Transaction Account.

The Lease Agreement will be governed by, and construed in accordance with, the laws of the Republic.

"Additional Lease Period" means the period for which the lease of the Lease Assets continues in accordance with the terms of the Purchase Undertaking.

"Lease Assets" means the Assets (as set out in Schedule 1 of the Lease Agreement), as such assets may be repaired, refurbished, upgraded or replaced from time to time as a result of:

- (a) any Major Maintenance and Structural Repair and/or any Ordinary Maintenance and Repair; or
- (b) any substitution in accordance with the Substitution Undertaking,

provided however that "Lease Assets" shall not include any asset the title to which has been sold, transferred or otherwise conveyed to the Republic under the terms of the relevant Transaction Documents.

"Major Maintenance and Structural Repair" means all structural repair and major maintenance (other than Ordinary Maintenance and Repair), including doing such acts or things and taking such steps to ensure that the Lease Assets suffer no damage, loss or diminution in value, without which the Lease Assets could not be reasonably and properly used by the Lessee.

"Ordinary Maintenance and Repair" means all repairs, replacements, acts, maintenance and upkeep works required for the general use and operation of the Lease Assets and to keep, repair, maintain and preserve the Lease Assets in good order, state and condition.

"Proprietorship Taxes" means all Taxes in relation to the Lease Assets, including without limitation real estate tax law number 1319, imposed, charged or levied by law, regulation or decree against a proprietor, but excluding all Taxes that are imposed, charged or levied by law, regulation or decree against a lessee or a tenant.

"Tax" means any direct taxes (including the withholding taxes payable under the Corporation Tax Law (Law No. 5520) and related Decrees of the Council of Ministers of Turkey (Decrees No. 2009/14592 and No. 2009/14593 as amended by Decree No. 2011/1854) and under the Income Tax Law (No. 193) or transaction or any other indirect taxes (including BITT and value added tax) stamp, land registry charges or other duty, assessment, levy (including RUSF), charge, or impost of any nature whatsoever (including any related penalty or interest) imposed under any law.

"Total Loss Event" means: (a) the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical; or (b) the Lessor ceases to own the entirety of the Lease Assets other than in accordance with the terms of the Transaction Documents.

Servicing Agency Agreement

Pursuant to a servicing agency agreement (the **"Servicing Agency Agreement"**) dated on or about the Closing Date between the Issuer (in its capacities as Issuer and Lessor), the Republic as servicing agent (in such capacity, the **"Servicing Agent"**), and the Representative, the Servicing Agent will be responsible for ensuring, on behalf of the Lessor, that the Lease Assets are, so long as the Certificates are outstanding, insured (and, to the extent that it is reasonable and commercially practicable, in a manner which is compliant with the principles of Islamic finance), for the performance of all Major Maintenance and Structural Repair and for the payment of any Proprietorship Taxes charged, levied or claimed in respect of the Lease Assets. The Servicing Agent may delegate its obligations under the Servicing Agency Agreement to subcontractors and consultants (which would include the relevant government ministry which has been allocated the use of a specific asset from the Lease Assets). It is not required that the insurances for the Lease Assets are entered into with third parties and it the Republic will be permitted to self insure the Lease Assets.

Other than on the first Rental Payment Date (as defined in the Lease Agreement), the Lessor shall reimburse to the Servicing Agent any Services Charge Amount (i) on the Rental Payment Date for the next lease period, (ii) on the date of termination of the lease, if the lease is terminated prior to the Rental Payment Date or (iii) on the date of termination of the lease, in the case of the final lease period.

An amount equal to: (i) the Supplementary Rental to be paid by the Republic (as Lessee under the Lease Agreement) to the Lessor as or as part of any Rental under the Lease Agreement; or (ii) the Services Charge Amount that is payable as part of any Exercise Price, shall be set off against the Services Charge Amount to be paid by the Lessor to the Servicing Agent under the Servicing Agency Agreement.

Upon the occurrence of a Total Loss Event, all Takaful/Insurance Proceeds or the Takaful/Insurance Coverage Amount, as the case may be, are required to be paid into the Transaction Account by no later than close of business in the Republic on the 30th day after the occurrence of the Total Loss Event. The Servicing Agency Agreement provides that if the Takaful/Insurance Proceeds paid into the Transaction Account are less than the Takaful/Insurance Coverage Amount (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the Transaction Account being the **"Total Loss Shortfall Amount"**), and unless the Servicing Agent can show (in a final non appealable judgement by a court of competent jurisdiction) that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement, then the Servicing Agent will undertake to pay (in U.S. dollars in same day, immediately available funds) the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than close of business in the Republic on the 31st day after the Total Loss Event has occurred, such that the amount standing to the credit of the Transaction Account on the 31st day following the occurrence of a Total Loss Event, represents the aggregate of the Takaful/Insurance Proceeds payable in respect of a Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

In the event that the Servicing Agent is able to pay either the Takaful/Insurance Proceeds or the proceeds from any Self-Insurance into the Transaction Account prior to the 30th day after the occurrence of a Total Loss Event, then the amount of the Takaful/Insurance Coverage Amount to be paid into the Transaction Account shall be reduced by an amount equal to the difference between the 30 days Rental payable under the Lease Agreement that would have been payable as part of the Takaful/Insurance Coverage Amount, and the actual number of days Rental that would have been payable under the Lease Agreement from the date of the Total Loss Event to the date of payment into the Transaction Account. This reduction in the amount of the Takaful/Insurance Coverage Amount payable into the Transaction Account shall operate as an incentive for the early recovery by the Servicing Agent of the Takaful/Insurance Proceeds, with any Takaful/Insurance Proceeds received by the Servicing Agent following payment of the reduced Takaful/Insurance Coverage Amount into the Transaction Account being for the Servicing Agent's sole account.

The Servicing Agency Agreement will be governed by, and construed in accordance with, English law.

"Services Charge Amount" means, in respect of a Lease Period, all payments made or incurred by the Servicing Agent in respect of the Services performed in accordance with the Servicing Agency Agreement in relation to the Lease Assets during that Lease Period plus VAT (if any) payable on such amount.

"Takaful/Insurance Coverage Amount" means an amount equal to the aggregate of:

- (a) the face amount of the Certificates;
- (b) either
 - (i) in respect of Takaful/Insurances, an amount equal to at least thirty (30) days Rental payable under the Lease Agreement; and
 - (ii) in respect of Self Insurance, an amount equal to the Rental that would have been payable under the Lease Agreement from the date of the Total Loss Event to the date that the Takaful/Insurance Coverage Amount is paid into the Transaction Account; and
- (c) without duplication or double counting, an amount equal to any Services Charge Amount outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets.

Purchase Undertaking

Pursuant to a purchase undertaking (the **"Purchase Undertaking"**) to be dated on or about the Closing Date granted by the Republic (as obligor) in favour of the Issuer and the Representative, the Republic, provided there has been no Total Loss Event, irrevocably undertakes to purchase and accept the transfer and conveyance of all of the Issuer's interests, rights, benefits and entitlements in and to the Lease Assets on: (i) the Scheduled Dissolution Date of the Certificates; or (ii) any earlier due date following the Representative giving notice to the Issuer that a Dissolution Request has been made, in each case in exchange for payment of the Exercise Price. An amount equal to the Services Charge Amount to be paid by the Republic as part of the Exercise Price and any Services Charge Amount to be paid by the Issuer in accordance with the Servicing Agency Agreement which has not been paid at such time by way of payment of Supplementary Rental (as defined in the Lease Agreement) under the Lease Agreement shall be set off against one another.

In order to exercise these rights, the Issuer (or the Representative as applicable, on its behalf) is required to deliver an Exercise Notice to the Republic under, and in accordance with the terms of, the Purchase Undertaking.

The Republic agrees in the Purchase Undertaking that, except for the set off of any outstanding Services Charge Amount against the Exercise Price, all payments by it under the Purchase Undertaking will be made in U.S. dollars without set off or counterclaim of any kind and without any deduction or withholding for or on account of Tax unless required by law and, in the event that there is any deduction or withholding, the Republic shall pay all such additional amounts as will result in the receipt by the Issuer, the Representative and each other Compensated Person (as defined in the Purchase Undertaking) of such net amounts as would have been received by it if no such withholding or deduction had been made. The Republic has also represented and warranted in the Purchase Undertaking, among other things, that the payment obligations of the Republic under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement are and will be direct, unconditional, unsubordinated, unsecured and general obligations of the Republic at all times ranking at least equally with all other unsecured and unsubordinated External Indebtedness (as defined in the Conditions) of the Republic from time to time outstanding. It is understood that under this clause the Republic shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Certificates and vice versa.

Subject to payment of the Exercise Price in accordance with the Purchase Undertaking, the Issuer and the Republic will be required to enter into a sale agreement (the **"Purchase Undertaking Sale Agreement"**) in substantially the form scheduled to the Purchase Undertaking to effect the sale, transfer and conveyance by the Issuer to the Republic of the Lease Assets.

If, following receipt of an Exercise Notice pursuant to the Purchase Undertaking, the Republic fails to pay all or part of the Exercise Price (after taking into consideration any set off of any outstanding Services Charge Amount), then the Republic may (a) purchase and accept the transfer and conveyance of all of the Issuer's interests, rights, benefits and entitlements in and to such proportion of the Lease Assets that corresponds in value to the amount of the Exercise Price paid by the Republic on the Due Date by entering into a Sale Agreement with the Issuer; and shall (b) irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to lease the remaining proportion of Lease Assets from the Issuer (as Lessor) and continue to act as Servicing Agent in respect of the Lease Assets with effect from and including the due date for payment on the terms and conditions, *mutatis mutandis*, of the Lease Agreement and the Servicing Agency Agreement, save that rental shall accrue on a daily basis in respect of the period from, and including, the due date for payment to, but excluding, the date on which the sale and purchase in respect of the Issuer's interests, rights, benefits and entitlements in and to the Lease Assets occurs (including the payment in full of the outstanding Exercise Price and all other accrued amounts by the Republic) at the rate or rates at which Periodic Distribution Amounts shall accrue under the Conditions.

The Republic has agreed that certain events or circumstances shall constitute Republic Events under the Purchase Undertaking. A Republic Event will constitute a Dissolution Event under the terms and conditions of the Certificates. For a full list of the Republic Events, please see Condition 14 (*Dissolution Events*) under the section entitled "*Terms and Conditions of the Certificates*".

The Certificateholders will also have the benefit of a negative pledge given by the Republic in the Purchase Undertaking, a summary of which is set out in Condition 5 (*Negative Pledge*).

The Purchase Undertaking will be governed by, and construed in accordance with, English law.

The Purchase Undertaking Sale Agreement will be governed by, and construed in accordance with, the laws of the Republic.

"**Exercise Price**" means the aggregate of:

- (i) the outstanding face amount of the Certificates;
- (ii) all accrued but unpaid Rental (or part thereof) relating to the Lease Assets (if any), to the extent not received by the Issuer in its capacity as Lessor under the Lease Agreement;
- (iii) without duplication or double counting, an amount equal to any accrued but unpaid Services Charge Amount; and
- (iv) without duplication or double counting, the costs and expenses of the Representative and the Agents.

Substitution Undertaking

Pursuant to a substitution undertaking (the "**Substitution Undertaking**") to be dated on or about the Closing Date granted by the Issuer (as obligor) in favour of the Republic, the Issuer has granted to the Republic the right to require the Issuer to sell, transfer and convey its interests, rights, benefits and entitlements in and to certain of the Lease Assets (the "**Substituted Lease Assets**") or any part thereof to the Republic. In consideration for the sale, transfer and conveyance of the Substituted Lease Assets by the Issuer to the Republic, the Republic will transfer and convey all of its interests, rights, benefits and entitlements in and to certain new lease assets (the "**New Lease Assets**") to the Issuer. The Republic will be obliged to certify that the value of the New Lease Assets is at least equal to or greater than the value of the Substituted Lease Assets.

In order to exercise these rights, the Republic is required to deliver a Substitution Notice to the Issuer under, and in accordance with the terms of, the Substitution Undertaking.

The substitution of the New Lease Assets for the Substituted Lease Assets will become effective on the Substitution Date (as specified in the Substitution Notice to be delivered by the Republic in accordance with the Substitution Undertaking) by the Issuer and the Republic entering into a transfer agreement (the "**Transfer Agreement**") in substantially the form scheduled to the Substitution Undertaking.

The Substitution Undertaking and each Transfer Agreement will be governed by, and construed in accordance with, the laws of the Republic.

Redemption Undertaking

Pursuant to a redemption undertaking (the "**Redemption Undertaking**") dated on or about the Closing Date granted by the Issuer in favour of the Republic, the Issuer has granted to the Republic the right to require the Issuer to sell, transfer and convey its interest, rights, benefits and entitlements in and to certain Lease Assets (the "**Redemption Lease Assets**") to the Republic, in consideration for certain Certificates held by it (the "**Republic Certificates**") and the Republic shall surrender, and the Issuer shall cancel, such Republic Certificates in accordance with the terms and conditions of the Representative Agreement in the circumstances specified and subject to the terms set out in the Redemption Undertaking.

The Republic will be obliged to represent and warrant that:

- (i) the aggregate face amount of the relevant Republic Certificates being cancelled is at least equal in value to the relevant Redemption Lease Assets;
- (ii) following the date of redemption and cancellation, the Lease Assets will be at least equal in value to the aggregate face amount of the Certificates then outstanding following redemption of the relevant Redemption Lease Assets and cancellation of the relevant Republic Certificates; and
- (iii) the sale, transfer and conveyance of the Issuer's interests, rights, benefits and entitlements in and to the relevant Redemption Lease Assets in accordance with the Redemption Undertaking and the relevant Redemption Sale Agreement (as defined below) represents fair and valuable consideration for the surrender of the relevant Republic Certificates by the Republic and the cancellation of the relevant Republic Certificates in accordance with the Redemption Undertaking, the Representative Agreement and the Conditions.

In order to exercise these rights, the Republic is required to deliver a Redemption and Cancellation Notice to the Issuer (copied to the Principal Paying Agent and the Representative) under, and in accordance with the terms of, the Redemption Undertaking.

The sale, transfer and conveyance of the Redemption Lease Assets may become effective at any time on and from the Redemption and Cancellation Date (as specified in the Redemption and Cancellation Notice to be delivered by the Republic in accordance with the Redemption Undertaking and which shall be a Periodic Distribution Date) by the Issuer and the Republic entering into a sale agreement (the "**Redemption Sale Agreement**") in substantially the form scheduled to the Redemption Undertaking.

The Redemption Undertaking will be governed by, and construed in accordance with, English law.

Each Redemption Sale Agreement will be governed by, and construed in accordance with, the laws of the Republic.

Representative Agreement

Pursuant to a representative agreement (the "**Representative Agreement**") to be dated on or about the Closing Date entered into by way of a deed between the Republic, the Issuer and the Representative, the Representative will act as trustee for itself and the Certificateholders and undertake certain administrative functions in respect of the Certificates and the Transaction Documents.

Pursuant to the Representative Agreement, upon issue of the Certificates, the Representative shall hold, the benefit of certain covenants given by the Issuer on trust for itself and the Certificateholders. Such covenants include, amongst others:

- (i) the covenant to pay the face amount of the Certificates when due for redemption or repayment;
- (ii) the covenant to pay Periodic Distribution Amounts due to be paid;
- (iii) certain undertakings of the Issuer to, amongst others, cause all income from the Lease Certificate Assets to be collected, and all payments in respect of the Certificates to be made, in accordance with the Conditions, the Representative Agreement and the Paying Agency Agreement;

- (iv) the Negative Pledge given by the Republic; and
- (v) covenants given by the Republic in the Purchase Undertaking (such as to purchase the Lease Assets if certain conditions are met).

Pursuant to the Representative Agreement, the Issuer will declare that it will hold the Lease Certificate Assets comprising:

- (i) all of the Issuer's rights, interest and benefit (present and future) in, to and under the Lease Assets;
- (ii) all monies standing to the credit of the Transaction Account;
- (iii) all of the Issuer's rights, interest and benefit (present and future) in, to and under the Transaction Documents (excluding any representations given to the Issuer by the Republic pursuant to any of the Transaction Documents); and
- (iv) all proceeds of the foregoing (which are held by the Issuer),

in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income accruing to the Issuer from the Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders, on a *pro rata* basis in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates.

The Representative Agreement will specify that, on or after the Scheduled Dissolution Date or, as the case may be, the Dissolution Date, the rights of recourse in respect of the Certificates shall be limited to the amounts from time to time available and comprising the Lease Assets, subject to the priority of payments set out in the Representative Agreement, the Certificates and the Conditions. The Certificateholders have no claim or recourse against the Issuer, the Republic, the Representative, the Agents or any other person in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

In the Representative Agreement, the Representative may, upon the occurrence of a Dissolution Event or a Potential Dissolution Event (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), exercise all of the rights of the Issuer under the Transaction Documents and the Conditions (**provided that** no obligations, duties, Liabilities or covenants of the Issuer pursuant to the Representative Agreement or any other Transaction Document shall be imposed on the Representative by virtue of this delegation). The Representative may also refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction or, to the extent applicable, of England. Furthermore, the Representative may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or in England or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or in England or if it is determined by any court or other competent authority in that jurisdiction or in England that it does not have such power.

The Issuer will undertake in the Representative Agreement that it shall: (i) following it becoming aware of the occurrence of a Dissolution Event in respect of any Certificates and subject to Condition 14 (*Dissolution Events*) promptly notify the Representative and the Certificateholders of the occurrence of such Dissolution Event; and (ii) take all such steps as are necessary to enforce the obligations of the Republic under the Sale Agreement, the Purchase Undertaking, the Redemption Undertaking, the Lease Agreement, the Servicing Agency Agreement and any other Transaction Document to which the Republic is a party in accordance with the provisions of the relevant Transaction Document.

Following the occurrence of a Dissolution Event, the Representative shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), if notified in writing of the occurrence of such Dissolution Event, give notice in writing of the occurrence of such Dissolution Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such holders to indicate if they wish the Certificates to be redeemed. If so requested in writing by the holders of at least 25 per cent. of the then outstanding aggregate face amount of the Certificates or if so directed by an Extraordinary

Resolution of the Certificateholders (a "**Dissolution Request**"), the Representative shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer (with a copy to the Republic) of the Dissolution Request and, upon receipt of such notice, the Issuer shall promptly exercise its rights under the Purchase Undertaking by serving an Exercise Notice on the Republic in accordance with the terms of the Purchase Undertaking and use the proceeds of the resultant sale to redeem the Certificates at the Dissolution Distribution Amount on the date that is 2 Business Days after the date specified in such notice.

Upon the occurrence of a Dissolution Event, to the extent that the Dissolution Distribution Amount payable in respect of the Certificates has not been paid in full (and subject to it being indemnified and/or secured and/or prefunded to its satisfaction) the Representative shall pursuant to the Representative Agreement and/or any other Transaction Document, as applicable, and further subject to Condition 15(ii) (*Enforcement and Exercise of Rights*), take one or more of the following steps:

- (i) enforce the provisions of the Purchase Undertaking against the Republic; and/or
- (ii) take such other steps as the Issuer or the Representative may consider necessary or desirable to exercise all of the rights of the Issuer or the Representative under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the Lease Certificate Assets as the Issuer is bound to make in accordance with the Representative Agreement.

The Representative Agreement specifies, *inter alia*, that:

- (i) following the enforcement and ultimate distribution of the net proceeds of the Lease Certificate Assets in respect of the Certificates to the Certificateholders in accordance with the Conditions and the Representative Agreement, neither the Issuer nor the Representative shall be liable for any amounts which remain unpaid under the Certificates and, accordingly, Certificateholders may not take any action against the Issuer, the Representative or any other person to recover any such sum or asset in respect of the relevant Certificates;
- (ii) subject to clause 18 (*Remuneration and Indemnification*) of the Representative Agreement, shall not be bound in any circumstances to take any action to enforce the rights of the Certificateholders in respect of the Lease Certificate Assets or take any action against the Issuer or the Republic under any Transaction Document to which either of the Issuer or the Republic (as applicable) is a party unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least 66⅔ per cent. of the then outstanding aggregate face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or pre funded to its satisfaction by the Certificateholders against all Liabilities which it may thereby render itself liable to incur or which it may incur by so doing; and
- (iii) paragraphs (i) and (ii) above are subject to this paragraph (iii). After distributing the net proceeds of the Lease Certificate Assets in accordance with Condition 6(b) (*The Asset Leasing Company—Application of Proceeds from Lease Certificate Assets*), the obligations of the Issuer in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer (or any steps against the Representative) to recover any further sums in respect of the Certificates and the right to receive any unpaid sums shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding up of the Issuer.

The Republic will undertake in the Representative Agreement to the Issuer and the Representative that, for as long as any Certificate is outstanding, it will not create or permit to subsist (i) any Lien (other than a Permitted Lien) for any purpose upon or with respect to any International Monetary Assets of the Republic; or (ii) 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 unless at the same time or prior thereto, all amounts payable under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement are secured at least equally and rateably with such External Indebtedness.

The Representative Agreement will be governed by, and construed in accordance with, English law.

Paying Agency Agreement

Pursuant to a paying agency agreement (the "**Paying Agency Agreement**") to be dated on or about the Closing Date entered into between the Issuer, the Republic, the Representative, the Principal Paying Agent, the Registrar and the Transfer Agents:

- (i) the Registrar has agreed to be appointed as agent of the Issuer and in such capacity has agreed, amongst other things, to complete, authenticate and deliver the Global Certificates;
- (ii) the Principal Paying Agent has agreed to be appointed as agent of the Issuer and in such capacity has agreed, amongst other things, to pay all sums due under such Global Certificates, and to make all calculations and determinations in relation to amounts due under the Global Certificates; and
- (iii) the Transfer Agents have agreed to be appointed as agent of the Issuer and in such capacity have agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificates and issue Definitive Certificates in accordance with each request.

Issue of Global Certificates

On the Closing Date, the Registrar will: (i) authenticate the Global Certificates in accordance with the Representative Agreement; and (ii) deliver, on the Closing Date, the Global Certificates:

- (i) in the case of a Regulation S Global Certificate, to the common depositary; or
- (ii) in the case of a Rule 144A Global Certificate, to the custodian,

or to such clearing system or other depositary or custodian for a clearing system as shall have been agreed between the Issuer, the Republic and the Principal Paying Agent or otherwise, at such time, on such date, to such person and in such place as may have been agreed between the Issuer, the Republic and the Principal Paying Agent.

Payments

The Issuer will pay in freely transferable, cleared funds to the Transaction Account opened by the Issuer with the Principal Paying Agent, any payment which becomes due in respect of a Certificate in accordance with the Conditions.

The Issuer will confirm within three Business Days preceding the day on which any payment is to be made to the Principal Paying Agent that the payment instructions have been given.

The Principal Paying Agent will notify the Issuer and the Representative if the Issuer has not made any payment or if it pays the full amount of any sum payable after the date specified for such payment. If the Principal Paying Agent decides in its discretion that the amounts are not sufficient to make a payment then neither the Principal Paying Agent nor any other Paying Agent is obliged to pay any sums to Certificateholders until the Principal Paying Agent has received the full amount.

The Principal Paying Agent is entitled to treat the registered holder of any Certificate as the absolute owner for all purposes.

Changes in Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and/or to appoint additional or other Agents by giving, *inter alia*, such Agent at least 60 days' prior written notice to that effect, **provided that**: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); and (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system.

Costs Undertaking Deed

Pursuant to a costs undertaking deed (the "**Costs Undertaking Deed**") to be dated on or about the Closing Date granted by the Republic in favour of the Issuer and the Representative, the Republic irrevocably undertakes to and for the benefit of the Issuer and the Representative:

- (i) that it will pay, as and when they fall due, all outstanding fees, costs and expenses due by the Issuer to an Agent pursuant to the Paying Agency Agreement or any other contract relating to the Certificates between the Issuer and such Agent;
- (ii) that it will pay all amounts due by the Issuer to each Agent with respect to certain losses incurred by such Agents on the terms and conditions set out in the Paying Agency Agreement (in which the Republic indemnifies each Agent against any claim, demand, action, liability, damages, cost, actual loss or expense (including, without limitation, legal fees and any applicable value added tax) which the Agent properly incurs otherwise than by reason of its own fraud, gross negligence or wilful default, as a result or arising out of or in relation to its acting as the agent of the Issuer in relation to the Certificates and the appointment of or the exercise of the powers and duties by each Agent under the Paying Agency Agreement); and
- (iii) that it will pay all outstanding taxes (including any government related costs, fees, penalties and charges in relation to such taxes) to be paid by the Issuer to the Turkish tax authorities when they become due and payable.

The Costs Undertaking Deed will be governed by, and construed in accordance with, English law.

USE OF PROCEEDS

The proceeds of the issue of the Certificates will be paid by the Issuer on the Closing Date to the Republic or to its order as the purchase price for the Lease Assets pursuant to the Sale Agreement. The total net proceeds in connection with the issuance and offering of the Certificates are expected to be approximately U.S.\$999,250,000.

The proceeds received by the Republic will be used by the Republic for general financing purposes, which may include the repayment of debt.

TAXATION

Turkish Taxation

The following discussion summarises certain Turkish tax considerations that may be relevant to a holder of a Certificate who is not a tax resident in Turkey. This summary is based on Turkish laws, regulations, rulings and decisions now in effect, which may change. Any change could apply retroactively and could affect the validity of this summary. This summary does not describe all of the tax considerations that may be relevant to all the holders, particularly if such holders are subject to special tax rules. Investors should consult their own tax advisors about the tax consequences of holding the Certificates, including the relevance of the particular situation of the considerations discussed.

Income Tax and Withholding Tax

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile or its business centre is in Turkey. A legal entity having its corporate domicile and effective place of management outside of Turkey is a non resident of Turkey. A natural person is a resident of Turkey if it has established domicile or stays in Turkey for more than six months in a calendar year.

While resident legal entities and resident individuals are taxed on their worldwide income in Turkey, non-resident legal entities acting without creating a permanent establishment in Turkey and non-resident individuals are taxed only on the income that is sourced or derived in Turkey.

Income from capital investment including periodic distribution payment is sourced in Turkey when the principal is invested in Turkey. Capital gains derived from trading income is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term "**accounted for**" means that a payment is made in Turkey, or if the payment is made abroad, that it is recorded in the books in Turkey.

Any withholding tax levied on income derived by a non resident is the final tax for the non-resident and no further declaration is needed. Any other income of a non resident sourced in Turkey that has not been subject to withholding tax will be subject to taxation and declaration where exemptions are reserved.

Article 30.1 of the Corporation Tax Law (Law No. 5520) ("**Corporation Tax Law**") requires a 15 per cent. withholding tax from the income received under the Certificates by the non-resident legal entities. However, according to the Council of Ministers' Decree No. 2009/14593 the rate of such withholding tax is reduced to 0 per cent. for Certificates issued by Turkish Treasury.

Article 94.7 of the Income Tax Law (Law No. 193) ("**Income Tax Law**") requires withholding tax from the income received under the Certificates by the non-resident individuals. However, according to the Council of Ministers' Decree No. 2009/14592, the rate of such withholding tax is reduced to 0 per cent. for Certificates issued by Turkish Treasury.

As noted, such withholding tax on the periodic distribution payments is final for the non-resident individual Certificateholders and no declaration is required. Such withholding tax is also final for non-resident corporate Certificateholders if the corporate entity does not earn income through a permanent establishment in the Republic. No declaration is required in such circumstances.

Please note that there can be no assurance that such rates will continue to be 0 per cent., but in the event of any increase in such rates, the Issuer will be obliged to pay additional amounts as specified in Condition 11 (*Taxation*) of the Terms and Conditions of the Certificates.

Capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Certificates shall be subject to declaration. However, pursuant to Temporary Article 67.7 of the Income Tax Law, special or separate tax returns will not be submitted for capital gains derived from the sale of Certificates. Therefore, no tax is levied on non-resident individuals and corporate entities not earning income through a permanent establishment in the Republic on capital gains from such Certificates and no declaration is needed.

Article 30.7 of the Corporation Tax Law and Article 94 of the Income Tax Law provide for all payments to corporations and individuals established or operating in tax havens to be determined by a decision of the Cabinet of Ministers to be subject to withholding tax at a rate of 30 per cent. As of the date of this

Prospectus, the Cabinet of Ministers has not issued a list of tax havens. Therefore, Article 30.7 of the Corporate Tax Law would not be applied until such determination is made.

According to Section IV.41 of Table 2 of the Stamp Tax Law (Law No. 488) (as amended), Certificates are exempt from Turkish stamp tax.

A non-resident holder will not be liable for Turkish inheritance, registration or similar tax or duty with respect to its investment in the Certificates.

United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Certificate that is a citizen or resident of the U.S. or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of a Certificate (a "**United States holder**"). This summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the income tax laws of the U.S. federal government. This summary is based on laws, regulations, rulings and decisions in effect as of the date hereof, all of which are subject to change, which change could apply retroactively and could affect the tax consequences described below. This summary deals only with United States holders that acquire the Certificates at original issuance and that will hold Certificates as capital assets and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, financial institutions, regulated investment companies, tax-exempt entities, insurance companies, dealers or traders in securities or currencies, U.S. branch operations of foreign corporations, holders that are subject to the mark to market rules, persons that will hold Certificates as a position in a hedging, "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction, persons that have a "functional currency" other than the U.S. dollar or persons who hold Certificates through a partnership or other pass-through entity. Furthermore, this summary does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of the Certificates.

No ruling is being requested from the U.S. Internal Revenue Service (the "**IRS**") and no legal opinion is being given regarding the tax consequences of investing in the Certificates. Furthermore, no assurance can be given that the IRS or the courts will agree with the discussions set forth herein. The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of Certificates. Investors should consult their own tax advisors in determining the tax consequences to them of holding Certificates, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

Characterisation of the Certificates

The Issuer believes it is appropriate and intends to treat the Certificates as debt instruments for U.S. federal income tax purposes. However, there is no authority that directly addresses the characterisation of securities like the Certificates for U.S. federal income tax purposes. It is possible that the Certificates could be treated as equity interests in the Issuer, as beneficial ownership interests in an obligation of the Republic or as other types of financial instruments. If the Certificates were treated as equity interests in the Issuer, United States holders likely would be treated as owning interests in a passive foreign investment company (or "**PFIC**"), which could have materially adverse tax consequences for such United States holders. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterisations of the Certificates, the possibility that the Certificates might be classified as equity interests in a PFIC and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the Certificates will be treated as debt for U.S. federal income tax purposes.

Periodic Distribution Amounts

A United States holder will be required to include Periodic Distribution Amounts in its income as ordinary income at the time that such distributions are accrued or are received (in accordance with the holder's method of tax accounting). Such income will be treated as foreign source income for purposes of calculating that United States holder's foreign tax credit limitation. The limitation on foreign taxes eligible for foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, such income should generally constitute "**passive income**". Any foreign income taxes withheld

from payments of Periodic Distribution Amounts will be included in the income of United States holders as ordinary income and will likewise be deductible to United States holders, or, alternatively, United States holders may be eligible for a U.S. foreign tax credit subject to various limitations. United States holders should consult their own tax advisers regarding the availability of a foreign tax credit and the application of the foreign tax credit rules.

Purchase, Sale and Retirement of Certificates

A United States holder's tax basis in a Certificate generally will equal the cost of such Certificate to such holder. Upon the sale, exchange or retirement of a Certificate, a United States holder generally will recognise gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (less any amounts in respect of accrued Periodic Distribution Amounts, which will be taxable as ordinary income to the extent not previously included in income) and the holder's tax basis in such Certificate. Gain or loss recognised by a United States holder generally will be U.S. source capital gain or loss. For United States holders who are individuals, trusts or estates that hold the Certificates for more than one year, capital gains may be taxed at lower rates than ordinary income. The deductibility of capital losses is subject to certain limitations.

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of \$50,000 on the last day of the taxable year, or \$75,000 at any time during the taxable year may be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. **"Specified foreign financial assets"** include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Certificates may be treated as specified foreign financial assets and U.S. holders may be subject to this information reporting regime. A U.S. Holder who fails to file information reports may be subject to penalties. Holders of Certificates should consult their own tax advisers regarding their obligations to file information reports with respect to the Certificates.

Information Reporting and Backup Withholding

Information returns may be required to be filed with the IRS with respect to payments made to certain United States holders of Certificates. In addition, a United States holder may be subject to backup withholding tax at a current rate of 28 per cent. in respect of such payments if such holder fails to provide its taxpayer identification number, to certify that such United States holder is not subject to backup withholding, or otherwise to comply with the applicable requirements of the backup withholding rules. A United States holder paid the proceeds of a sale of a Certificate effected at the U.S. office of a broker will generally be subject to the information reporting and backup withholding rules described above. In addition, the information reporting rules will apply to payments of proceeds of a sale effected at a foreign office of a broker that is a "United States Controlled Person," as defined below, unless the holder or beneficial owner establishes an exemption, and the backup withholding rules will apply to those payments if the broker has actual knowledge that the holder or beneficial owner is a United States holder. A **"United States Controlled Person"** is (i) a United States person (as defined in U.S. Treasury regulations); (ii) a controlled foreign corporation for U.S. federal income tax purposes; (iii) a foreign person 50 per cent. or more of whose gross income is derived for tax purposes from a U.S. trade or business for a specified three-year period; or (iv) a foreign partnership in which U.S. persons hold more than 50 per cent. of the income or capital interests or which is engaged in a U.S. trade or business. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of Certificates generally may be claimed as a credit against such holder's U.S. federal income tax liability **provided that** the required information is furnished timely to the IRS. Holders of Certificates should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Reporting Requirements

United States holders should consult their own tax advisers regarding any reporting requirements they may have as a result of the acquisition, ownership or disposition of the Certificates. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

The proposed financial transactions tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. The issuance and subscription of Certificates should, however, be exempt.

Under the Commission's Proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), impose certain restrictions on (i) employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Part 4, Title I of ERISA, (ii) plans (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, including individual retirement accounts and Keogh plans, (iii) any entities whose underlying assets could be deemed to include plan assets by reason of a plan's investment in such entities (each of the foregoing, a "**Plan**") and (iv) persons who have certain specified relationships to a Plan or its assets ("**parties in interest**" under ERISA and "**disqualified persons**" under the Code; collectively, "**Parties in Interest**"). ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA, and ERISA and Section 4975 of the Code prohibit certain transactions between a Plan and its Parties in Interest. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and the Code.

ERISA and Section 4975 of the Code prohibit a broad range of transactions involving "plan assets" and Parties in Interest, unless a statutory or administrative exemption is available. Parties in Interest that participate in a prohibited transaction may be subject to penalties imposed under ERISA and/or excise taxes imposed pursuant to Section 4975 of the Code, unless a statutory or administrative exemption is available. These prohibited transactions generally are set forth in Section 406 of ERISA and Section 4975 of the Code. Certain employee benefit plans, including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the prohibited transaction rules of ERISA or the Code but may be subject to similar rules under other applicable laws or documents. Accordingly, assets of such plans may be invested in the Certificates without regard to the prohibited transaction considerations under ERISA and the Code described below, subject to the provisions of other applicable federal, state or non U.S. law ("**Similar Law**").

The term "**plan assets**" is defined in Section 3(42) of ERISA. The U.S. Department of Labor, the governmental agency primarily responsible for the administration of ERISA, has issued a final regulation (29 C.F.R. Section 2510.3-101), which, together with Section 3(42) of ERISA, set out the standards that will apply for determining what constitutes the assets of a Plan (collectively, the "**Plan Asset Regulation**"). Under the Plan Asset Regulation, if a Plan invests in an "**equity interest**" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided economic interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by "benefit plan investors" (which are essentially Plans) is not "**significant**". The Plan Assets Regulation generally defines equity participation in an entity by "**benefit plan investors**" as "**significant**" if 25 per cent. or more of the value of any class of equity interest in the entity is held by "benefit plan investors". For the purposes of determining whether participation by "**benefit plan investors**" is "significant," Certificates held by an investor (other than a "**benefit plan investor**") that has discretionary authority or control over the assets of the Issuer or provides investment advice for a fee with respect to such assets, and any affiliates of such an investor, are excluded from such calculation. If the assets of the Issuer were deemed to be plan assets of a Plan, the Issuer would be subject to certain fiduciary obligations under ERISA and certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of business might constitute or result in non exempt prohibited transactions under ERISA or Section 4975 of the Code and might have to be rescinded.

Plans may not purchase or hold any interest in a Certificate. Accordingly, each initial purchaser of the Certificates (or any interest in a Certificate) and each subsequent transferee will be deemed to have acknowledged, represented and agreed, by its purchase or holding of a Certificate (or any interest in a Certificate), that (A) it is not and for so long as it holds Certificates will not be (i) a Plan or (ii) a governmental, church or non U.S. plan unless, under this subsection (ii), its purchase and holding of the Certificates would not result in a violation of any Similar Law or subject the Issuer or any transactions thereby to any such Similar Law, and (B) it and any person causing it to acquire any of the Certificates agrees to indemnify and hold harmless the Issuer, the Republic, the Representative, the Joint Lead Managers and their respective affiliates from any cost, damage or loss incurred by them as a result of it being or being deemed to be a Plan.

ERISA Transfer Restrictions

Each purchaser or transferee of the Certificates (or any interest in a Certificate) will be deemed to have acknowledged, represented and agreed that (a) it is not and is not acting on behalf of: (i) a Plan or (ii) a governmental, church or non U.S. plan unless, under this subsection (ii), the purchase and holding of the Certificate would not result in a violation of any Similar Law or subject the Issuer or any transactions thereby to any such Similar Law and (b) it will not sell or otherwise transfer any Certificates or interest to any person unless the same foregoing representations and warranties apply to that person.

SUBSCRIPTION AND SALE

Subject to the terms and conditions stated in the subscription agreement dated 7 June 2016 (the "**Subscription Agreement**") among the Issuer, the Republic and the Joint Lead Managers, each of the Joint Lead Managers has agreed to purchase, and the Issuer has agreed to sell to that Joint Lead Manager, the face amount of Certificates set forth opposite the relevant Joint Lead Managers' name:

	<i>U.S.\$</i>
Joint Lead Managers	
Emirates NBD P.J.S.C.....	333,333,000
HSBC Bank plc	333,334,000
Standard Chartered Bank.....	333,333,000
Total	<u><u>1,000,000,000</u></u>

The Subscription Agreement provides that the obligations of the Joint Lead Managers to subscribe and pay for, or procure subscriptions and payments for, the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions. The Subscription Agreement may be terminated by the Joint Lead Managers in certain circumstances prior to the issuance and subscription of the Certificates.

Pursuant to the Subscription Agreement, the Republic will pay the Joint Lead Managers' management and selling commissions in an amount equal to 0.075 per cent. of the aggregate face amount of the Certificates in respect of the offering and sale of the Certificates. The Joint Lead Managers have agreed to bear certain expenses of the offering.

The Republic has agreed to indemnify the Joint Lead Managers against certain liabilities, including liabilities under the Securities Act.

The Certificates are a new issue of securities for which there currently is no market. The Joint Lead Managers have advised the Issuer that they intend to make a market in the Certificates as permitted by applicable law. They are not obligated, however, to make a market in the Certificates, and they may discontinue any such market making at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Certificates.

The Joint Lead Managers propose to offer the Certificates initially at the offering price on the cover page of this Prospectus. After the initial offering, the offering price may be changed. The Issuer, the Republic and the Joint Lead Managers have not taken any action, nor will the Issuer, the Republic or the Joint Lead Managers take any action, in any jurisdiction that would permit a public offering of the Certificates, or the possession, circulation or distribution of this Prospectus or any other material relating to the Issuer, the Republic or the Certificates in any jurisdiction where action for that purpose is required. Accordingly, an investor may not offer or sell, directly or indirectly, any Certificate and may not distribute or publish either this Prospectus or any other offering material or advertisements in connection with the Certificates, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and the Certificates may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each Joint Lead Manager has represented that it has offered and sold the Certificates, and has agreed that it will offer and sell the Certificates, only in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act. Accordingly, neither it, its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Certificates, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Terms used in this paragraph and not otherwise defined herein have the meanings given to them by Regulation S.

Each Joint Lead Manager has represented, warranted, undertaken and agreed that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Certificates in the United States.

Each Joint Lead Manager may, through its respective U.S. registered broker dealer affiliates, arrange for the offer and resale of the Certificates in the United States only to QIBs that are QPs in accordance with Rule 144A.

Each Joint Lead Manager has represented, warranted, undertaken and agreed that it has offered and sold and will offer and sell the Certificates in the United States only to persons whom it reasonably believes are QIBs and QPs who can represent that: (A) they are QIBs who are QPs within the meaning of Rule 144A; (B) they are not broker dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (C) they are not a participant directed employee plan, such as a 401(k) plan; (D) they are acting for their own account, or the account of one or more QIBs each of which is a QP; (E) they are not formed for the purpose of investing in the Certificates or the Issuer; (F) each account for which they are purchasing will hold and transfer at least U.S.\$200,000 in face amount of Certificates at any time; (G) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book entry depositories; and (H) they will provide notice of the transfer restrictions set forth in the Prospectus to any subsequent transferees.

In connection with the offer and resale of the Certificates in the United States each Joint Lead Manager has represented and agreed that it is a QIB who is also a QP.

In addition, until 40 days after the commencement of the offering, an offer or sale of Certificates within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The Certificates (and any interest in a Certificate) may not be sold to or held by or on behalf of any: (i) employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) that is subject to Title I of ERISA; (ii) plan (as defined in Section 4975(e)(1) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) that is subject to Section 4975 of the Code; (iii) any entity whose underlying assets could be deemed to include "plan assets" by reason of a plan's investment in such entities for purposes of ERISA; or (iv) any governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), non U.S. plan (as described in Section 4(b)(4) of ERISA), or entity whose underlying assets are deemed to include the assets of any such plan, that is subject to rules similar to ERISA and the Code under other applicable laws or documents ("**Similar Law**"), unless, under this subsection (iv), its purchase and holding of the Certificates would not result in a violation of any such Similar Law or subject the Issuer or any transactions thereby to any such Similar Law.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Markets Rules (MKT Module) of the Dubai Financial Services Authority (the "**DFSA**"); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module.

United Arab Emirates (excluding the Dubai International Finance Centre)

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

United Kingdom

Each Joint Lead 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 Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or 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 any Certificates in, from or otherwise involving the United Kingdom.

Malaysia

Each Joint Lead Manager has represented and agreed that:

- (a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia ("**CMSA**"); and
- (b) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b), and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"), through a person authorised by the Capital Market Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Joint Lead Manager has represented and agreed that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations.

Investors are informed that Article 17 of the KSA Regulations place restrictions on secondary market activity with respect to the Certificates, including as follows:

- (a) a Saudi Investor (referred to as a "**transferor**") who has acquired Certificates pursuant to a private placement may not offer or sell Certificates to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:

- (i) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;
 - (ii) the Certificates are offered or sold to a sophisticated investor; or
 - (iii) the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;
- (b) if the requirement of paragraph (a)(i) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;
- (c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his entire holding of Certificates to one transferee; and
- (d) the provisions of paragraphs (a), (b) and (c) above shall apply to all subsequent transferees of the Certificates.

State of Qatar

Each of the Joint Lead Managers has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Certificates in the State of Qatar ("**Qatar**"), except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar. This Prospectus has not been reviewed or approved by the Qatar Central Bank or the Qatar Financial Markets Authority and is only intended for specific recipients, in compliance with the foregoing.

Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Certificates, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

State of Kuwait

Each Joint Lead Manager represents and agrees that no Certificates have been licensed for offering in the State of Kuwait by the Kuwait Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of Certificates in the State of Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended, governing the issue, offering and sale of securities. No private or public offering of the Certificates is being made in the State of Kuwait, and no agreement relating to the sale of the Certificates will be concluded in the State of Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in the State of Kuwait.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in the Kingdom of Bahrain who are "**accredited investors**".

For this purpose, an "accredited investor" means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than: (i) to "**professional investors**" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "**prospectus**" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**CO**") or which do not constitute an offer to the public within the meaning of the CO; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" within the meaning of the SFO and any rules made under the SFO.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**"). Accordingly, each Manager has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Certificates in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws and regulations of Japan.

Sultanate of Oman

Each Joint Lead Manager has represented and agreed that:

- (a) this Prospectus has not been filed with or registered as a prospectus with the Capital Market Authority of Oman pursuant to Article 3 of the Capital Market Authority Law SD 80/98 ("**Article 3**"), and will not be offered or sold as an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (SD 4/74, as amended) or Article 3; and
- (b) the Certificates have not been and will not be offered, sold or delivered, and no invitation to subscribe for or to purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Oman to any person in Oman other than an entity duly licensed by the Capital Market Authority of Oman to market non-Omani securities in Oman and then only in accordance with all applicable laws and regulations, including Article 139 of the Executive Regulations of the Capital Markets Law (Decision No. 1/2009, as amended).

General

Each Joint Lead Manager has represented, warranted and agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Certificates or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Republic, the Representative, the Agents or any of the Joint Lead Managers shall have any responsibility or bear any expense therefor.

None of the Issuer, the Republic, the Representative, the Agents or any of the Joint Lead Managers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

Other persons into whose hands this Prospectus comes are required by the Issuer, the Republic and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Certificates or possess, distribute or publish this Prospectus or any related offering material, in all cases at their own expense.

These Selling Restrictions may be modified by the agreement of the Issuer, the Republic and the Joint Lead Managers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Prospectus.

TRANSFER RESTRICTIONS

Because of the following transfer restrictions, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of Certificates.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold: (i) in the United States only to persons reasonably believed to be QIBs that are also QPs in reliance on Rule 144A of the Securities Act; or (ii) to non U.S. persons in an offshore transaction in reliance on Regulation S.

Any reoffer, resale, pledge, transfer or other disposal, or attempted reoffer, resale, pledge, transfer or other disposal, made other than in compliance with the restrictions noted below shall not be recognised by the Republic or the Issuer.

Rule 144A Certificates

Each purchaser of a beneficial interest in the Rule 144A Certificates, by accepting delivery of this Prospectus and the Rule 144A Certificates, will be deemed to have acknowledged, represented and agreed that:

1. It is: (a) a QIB that is also a QP; (b) not a broker dealer that owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) not a participant directed employee plan, such as a 401(k) plan; (d) acquiring such Rule 144A Certificates for its own account, or for the account of one or more QIBs, each of which is also a QP; (e) not formed for the purpose of investing in the Rule 144A Certificates or the Issuer; and (f) aware, and each beneficial owner of the Rule 144A Certificates has been advised, that the sale of the Rule 144A Certificates to it is being made in reliance on Rule 144A and the Issuer is relying, on a non-exclusive basis, on the exemption from the registration requirements of the Investment Company Act provided by section 3(c)(7);
2. It will: (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Certificates in a face amount that is not less than U.S.\$200,000; and (b) provide notice of the transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Rule 144A Certificates from one or more book entry depositories;
3. (a) The Rule 144A Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except: (i) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP; or (ii) to a non U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; and (b) it will, and each subsequent holder of the Rule 144A Certificates is required to, notify any purchaser of the Rule 144A Certificates from it of the resale restrictions on the Rule 144A Certificates;
4. It understands that the Rule 144A Certificates sold in this offering constitute "**restricted securities**" within the meaning of Rule 144 under the Securities Act, and for so long as they remain "restricted securities" such Rule 144A Certificates may not be transferred except as described in paragraph (3) above;
5. It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Certificates that is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Certificates, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Certificates to a U.S. person who is not both a QIB and a QP. Any purported transfer of the Rule 144A Certificates to a purchaser

that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio*;

6. The Rule 144A Certificates, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend in or substantially in the following form:

"THE CERTIFICATE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (A "**QIB**") WITHIN THE MEANING OF RULE 144A AND A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(A)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940 (THE "**INVESTMENT COMPANY ACT**") PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE CERTIFICATES REPRESENTED HEREBY IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS CERTIFICATE, THE REPUBLIC OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS CERTIFICATE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE CERTIFICATES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE CERTIFICATES REPRESENTED HEREBY; (6) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (7) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS CERTIFICATE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS CERTIFICATE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THE CERTIFICATES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE CERTIFICATES REPRESENTED HEREBY TO THE ISSUER OR AN AFFILIATE

OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS CERTIFICATE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE FACE AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE CERTIFICATES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

BY ACCEPTING THIS CERTIFICATE (OR ANY INTEREST IN THE CERTIFICATES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS CERTIFICATE (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("**CODE**") APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "**BENEFIT PLAN INVESTOR**"), AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH CERTIFICATES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR AND (B) IF IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON U.S. PLAN, OR ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE THE ASSETS OF ANY SUCH PLAN SUCH ACQUISITION DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON EXEMPT VIOLATION OF ANY LAWS THAT ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE AND WILL NOT SUBJECT THE ISSUER OR ANY TRANSACTIONS THEREBY TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS CERTIFICATE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE REPRESENTATIVE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS CERTIFICATE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE PROSPECTUS.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THE CERTIFICATES REPRESENTED HEREBY THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.";

7. It acknowledges that the Issuer, the Republic, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Certificates is no longer accurate, it shall promptly notify the Issuer, the Republic and the Joint Lead Managers. If it is acquiring any Certificates as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account; and
8. It understands that Rule 144A Certificates will be represented by interests in one or more Rule 144A Global Certificates. Before any interest in a Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate, it will be required to provide a Transfer Agent or the Registrar with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Certificates

Each purchaser of a beneficial interest in the Regulation S Certificates and each subsequent purchaser of Regulation S Certificates, by accepting delivery of this Prospectus and the Regulation S Certificates, will be deemed to have represented, agreed and acknowledged that:

1. It is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and it is not an affiliate of the Issuer, the Republic or a person acting on behalf of the Issuer, the Republic or such an affiliate;
2. It is, or at the time Regulation S Certificates are purchased it will be, the beneficial owner of such Regulation S Certificates;
3. The Regulation S Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and that it will not offer, sell, pledge or otherwise transfer Regulation S Certificates except (a) in accordance with Rule 144A in an amount not less than U.S.\$200,000 to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP each of which is purchasing not less than U.S.\$200,000 or (b) to a non U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States;
4. It understands that the Regulation S Certificates, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend substantially in the following form:

"THE CERTIFICATE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES OR TO A U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

BY ACCEPTING THIS CERTIFICATE (OR ANY INTEREST IN THE CERTIFICATES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS CERTIFICATE (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("**CODE**") APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "**BENEFIT PLAN INVESTOR**"), AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH CERTIFICATES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR AND (B) IF IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON U.S. PLAN, OR ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE THE ASSETS OF ANY SUCH PLAN SUCH ACQUISITION DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON EXEMPT VIOLATION OF ANY LAWS THAT ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE AND WILL NOT SUBJECT THE ISSUER OR ANY TRANSACTIONS THEREBY TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN AS A RESULT OF THE INVESTMENT IN

THE ISSUER BY SUCH PLAN. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS CERTIFICATE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE REPRESENTATIVE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS CERTIFICATE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE PROSPECTUS.";

5. It acknowledges that the Issuer, the Republic, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Certificates is no longer accurate, it shall promptly notify the Issuer, the Republic and the Joint Lead Managers; and
6. It understands that Regulation S Certificates will be evidenced by a Regulation S Global Certificate. Before any interest in a Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate, it will be required to provide a Transfer Agent or the Registrar with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

ERISA Transfer Restrictions

Each purchaser or transferee of the Certificates (or any interest in a Certificate) will be deemed to have acknowledged, represented and agreed that (a) it is not and is not acting on behalf of: (i) a Plan, or (ii) a governmental, church or non U.S. plan or entity whose underlying assets are deemed to include the assets of any such plan, unless, under this subsection (ii), the purchase and holding of the Certificate would not result in a violation of any Similar Law or subject the Issuer or any transaction thereby to any such Similar Law and (b) it will not sell or otherwise transfer any Certificates or interest to any person unless the same foregoing representations and warranties apply to that person.

LEGAL MATTERS

Certain legal matters will be opined upon for the Republic and the Issuer by the First Legal Advisor to the Undersecretariat of the Treasury and by Paksoy Ortak Avukat Bürosu, Turkish counsel to the Republic and the Issuer as to matters of Turkish law, and by Arnold & Porter LLP, international counsel to the Republic and the Issuer as to matters of U.S. federal and New York State law. Certain legal matters will be opined upon for the Joint Lead Managers by Yegin Çiftçi Attorney Partnership, Turkish counsel to the Joint Lead Managers and by Clifford Chance LLP, international counsel to the Joint Lead Managers, as to matters of U.S. federal, New York State and English law. Certain legal matters will be opined upon for the Representative as to English law by Clifford Chance LLP. In rendering their opinion, Arnold & Porter LLP will rely as to all matters of Turkish law upon the opinions of Paksoy Ortak Avukat Bürosu and the First Legal Advisor.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and/or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer or the Republic takes any responsibility for the accuracy of this section. The Issuer and the Republic only take responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the Issuer, the Republic, the Joint Lead Managers, the Agents or the Representative will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry ownership

Delivery of the Certificates in book-entry form will be made on the Closing Date. The Certificates will be represented by interests in one or more global certificates in registered form (the "**Global Certificates**") deposited on or about the Closing Date with either: (i) a custodian for, and registered in the name of a nominee of, DTC; or (ii) a common depositary for Euroclear and/or Clearstream, Luxembourg, and registered in the name of a common nominee of Euroclear and/or Clearstream, Luxembourg. Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg and/or DTC. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificates only in certain limited circumstances described herein.

The Issuer, and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant, will make application to DTC for acceptance in its book-entry settlement system of the Certificates represented by the Rule 144A Global Certificates. The Issuer will also make application to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Certificates to be represented by the Regulation S Global Certificates. The Regulation S Global Certificates and Rule 144A Global Certificates will each have a CUSIP, an ISIN and a Common Code. The Rule 144A Global Certificates and the Regulation S Global Certificates will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Transfer Restrictions*".

Upon the Rule 144A Global Certificates being registered in the name of a nominee of, and deposited with a custodian for, DTC, DTC will electronically record the nominal amount of the Rule 144A Global Certificates held within the DTC system. Investors may hold their beneficial interests in the Rule 144A Global Certificates directly through DTC if they are participants in the DTC system, or indirectly through organisations (including Euroclear and Clearstream, Luxembourg) which are participants in such system (together, such direct and indirect participants of DTC shall be referred to as "**DTC participants**"). Ownership of beneficial interests in a Rule 144A Global Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of direct participants) and the records of direct participants (with respect to interests of indirect participants). All interests in the Rule 144A Global Certificates, including those held through Euroclear and/or Clearstream, Luxembourg may be subject to the procedures and requirements of DTC. Those interests held through Euroclear and/or Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

Upon the Regulation S Global Certificates being registered in the name of nominees of, and deposited with custodians for, Euroclear and Clearstream, Luxembourg, Euroclear and Clearstream, Luxembourg will electronically record the nominal amount of the Regulation S Certificates held within the Euroclear and Clearstream, Luxembourg systems. Investors may hold their beneficial interests in the Regulation S Global Certificates directly through Euroclear and Clearstream, Luxembourg if they are participants in the Euroclear and Clearstream, Luxembourg systems, or indirectly through organisations which are participants in such system (together, such direct and indirect participants of Euroclear and Clearstream, Luxembourg shall be referred to as "**Euroclear and Clearstream, Luxembourg participants**"). Ownership of beneficial interests in a Regulation S Global Certificate accepted by Euroclear and Clearstream, Luxembourg will be shown on, and the transfer of such ownership will be effected only

through, records maintained by Euroclear and Clearstream, Luxembourg or their nominees (with respect to the interests of direct participants) and the records of direct participants (with respect to interests of indirect participants). All interests in the Regulation S Global Certificates may be subject to the procedures and requirements of Euroclear and Clearstream, Luxembourg. Those interests held through any indirect participants may also be subject to the procedures and requirements of such systems.

Payments and relationship of participants with clearing systems

Payments of the Dissolution Distribution Amount and Periodic Distribution Amounts and any other amount in respect of the Global Certificates will, in the absence of provisions to the contrary, be made to the person shown on the Register as the registered holder of the Global Certificates. None of the Issuer, the Representative or any Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

In particular, the Issuer expects that, upon receipt of any payment in respect of Certificates represented by a Global Certificate, DTC, Euroclear and Clearstream, Luxembourg or their respective nominees will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the face amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by DTC, Euroclear and Clearstream, Luxembourg participants to owners of beneficial interests in a Global Certificate held through such DTC, Euroclear and Clearstream, Luxembourg participants will be governed by standing instructions and customary practices. Each of the persons shown in the records of DTC, Euroclear and Clearstream, Luxembourg as the holder of a Certificate represented by a Global Certificate must look solely to DTC, Euroclear and Clearstream, Luxembourg for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Certificates for so long as the Certificates are represented by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid.

Transfer of Certificates

Transfers of interests in the Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Rule 144A Global Certificate to such persons may be limited. Because DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in the Regulation S Global Certificates may only be held through Euroclear and/or Clearstream, Luxembourg. In the case of Certificates to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in the Regulation S Global Certificates to a transferee who wishes to take delivery of such interest through the Rule 144A Global Certificates **provided that** any such transfer will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon receipt by any transfer agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person that the transferor reasonably believes is a QIB within the meaning of Rule 144A that is also a QP purchasing the Certificates for its own account or any account of a QIB, each of which is also a QP, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Certificates represented by such Regulation S Global Certificates will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Regulation S Global Certificates to the Representative or other agent of details of that account at DTC to be credited with the relevant interest in the Rule 144A Global Certificates. Transfers at any time by a holder of any interest in the Rule

144A Global Certificates to a transferee who takes delivery of such interest through the Regulation S Global Certificates will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon delivery to any transfer agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Certificates described above and under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the custodian of the Global Certificates, the Registrar and the Paying Agent.

On or after the Closing Date, transfers of Certificates between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Certificates between participants in DTC will generally have a settlement date six business days after the trade date (T+6). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests between the Global Certificates will be effected through the Paying Agent, the custodian of the Global Certificates, the Registrar and any transfer agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of: (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer; and (ii) two business days after receipt by the Registrar of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of the Certificates, see "*Transfer Restrictions*".

DTC will take any action permitted to be taken by a holder of Certificates only at the direction of one or more DTC participants in whose accounts with DTC interests in the Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Certificate as to which such DTC participant or participants has or have given such direction. However, the custodian of the Global Certificates will surrender the relevant Global Certificate for exchange for individual definitive certificates in certain limited circumstances.

DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Each of Euroclear and Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg

customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Representative or any Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While the Global Certificates are lodged with DTC, Euroclear and Clearstream, Luxembourg, Certificates represented by individual definitive certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Definitive Certificates

Registration of title to Certificates in a name other than a custodian or its nominee for DTC, Euroclear or Clearstream, Luxembourg will be permitted only in the circumstances set forth in "*Global Certificates—Exchange for Definitive Certificates*". In such circumstances, the Issuer and the Representative will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Certificate holder. A person having an interest in a Global Certificate must provide the Registrar with certain information as specified in the Paying Agency Agreement.

Pre-issue trades settlement

It is expected that delivery of Certificates will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle within six business days ("**T+6**"), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact the Certificates initially will settle beyond T+6, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own adviser.

GENERAL INFORMATION

Authorisation

The entry by the Issuer into the transactions contemplated by the Transaction Documents was authorised through the Ministerial Decisions and the decision of the Board of Directors of the Issuer dated 1 June 2016 and numbered 8. The Issuer was created on 17 August 2012 for the purpose of issuing the Certificates and entering into the Transaction Documents.

Listing

Application has been made to the ISE for the Certificates to be admitted to the Official List and admitted to trading on the Main Securities Market. The total expenses relating to the admission to trading of the Certificates on the Main Securities Market are expected to amount to €4,790.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List of the Irish Stock Exchange or to trading on the regulated market of the Irish Stock Exchange.

Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available both in electronic and physical format and in the English language, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Issuer and the Principal Paying Agent in London:

- (a) the Ministerial Decisions relating to the establishment of the Issuer including the Articles of Association of the Issuer;
- (b) the Transaction Documents;
- (c) this Prospectus and any supplements hereto; and
- (d) Exhibit D-2 to the Form 18-K/A set out in Annex A hereto.

The Republic's Annual Report for each of the fiscal years ended 31 December 2013 and 31 December 2014 on Form 18-K, and the 2015 annual budget of the Republic as set out in Exhibit C to the Form 18-K for the fiscal year ended 31 December 2014 were filed with the U.S. Securities and Exchange Commission and are available for viewing electronically on the website of the U.S. Securities and Exchange Commission.

The Republic's telephone number is: +90 312 204 7365.

Clearing Systems

It is anticipated that upon issuance, the Global Certificates will have been accepted for clearance through DTC and Euroclear and Clearstream, Luxembourg. The ISIN for the Rule 144A Certificates is US421790AD80. The CUSIP for the Rule 144A Certificates is 421790 AD8. The Common Code for the Rule 144A Certificates is 143133907. The ISIN for the Regulation S Certificates is XS1303467077. The Common Code for the Regulation S Certificates is 130346707.

Significant or Material Change

Save in respect of the Prior Certificates, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer, in each case, since the date of its incorporation.

Other than as disclosed: (i) under the heading "*Recent Developments*" in Exhibit D-2 to the Form 18-K/A set out in Annex A hereto (pages 5 to 17 of Exhibit D-2 to the Form 18-K/A); and (ii) in the section entitled "*Recent Developments*" in this Prospectus (pages 26 to 41 of this Prospectus), there has been no significant change in the financial or trading position of the Republic and no material adverse change in

the financial position or prospects of the Republic, in each case, since the last fiscal year ended 31 December 2014.

Other than as disclosed: (i) under the heading "*Recent Developments*" in Exhibit D-2 to the Form 18-K/A set out in Annex A hereto (pages 5 to 17 of Exhibit D-2 to the Form 18-K/A); and (ii) in the section entitled "*Recent Developments*" in this Prospectus (pages 26 to 41 of this Prospectus), there has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Republic since the last fiscal year ended 31 December 2014.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Other than as disclosed in Exhibit D-2 to the Form 18-K/A set out in Annex A hereto, the Republic is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Republic is aware in the last 12 months which may have or have in such period had a significant effect on the financial position or profitability of the Republic).

Financial Statements

The Issuer has agreed that, for so long as any Certificates are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it will during any period that it is neither subject to sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of Certificates or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Subsidiaries

The Issuer has no subsidiaries.

Agents and specified offices

The specified offices and contact details of the Principal Paying Agent, the Registrar and the Transfer Agent are set out as follows:

The Principal Paying Agent and Transfer Agent:

Citibank N.A., London Branch

Address: Citibank N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

Facsimile: +353 1 622 2210
Telephone: +353 1 622 0866
Attention: PPA Desk

The Registrar and Transfer Agent

Citigroup Global Markets Deutschland AG

Address: Citigroup Global Markets Deutschland AG
Agency and Trust Department
5th Floor Reuterweg 16

60323 Frankfurt Germany

Facsimile: +49 69 1366 1429
Attention: Agency & Trust

ANNEX A
EXHIBIT D-2 TO THE FORM 18-K/A

THE REPUBLIC OF TURKEY



This description of the Republic of Turkey is dated as of January 19, 2016 and appears as Exhibit D-2 to the Republic of Turkey's Amendment No. 2 to Annual Report on Form 18-K/A to the U.S. Securities and Exchange Commission for the fiscal year ended December 31, 2014.

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FORWARD-LOOKING STATEMENTS

Turkey has made forward-looking statements in this Annual Report on Form 18-K. Statements that are not historical facts are forward-looking statements. These statements are based on Turkey's current plans, estimates, assumptions and projections. Therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made. Turkey undertakes no obligation to update any of them in light of new information or future events.

Forward-looking statements involve inherent risks. Turkey cautions you that a number of factors could cause actual results to differ materially from those contained in any forward-looking statements. These factors include, but are not limited to:

- External factors, such as:
 - interest rates in financial markets outside Turkey;
 - the impact of changes in the credit rating of Turkey;
 - the impact of changes in the international prices of commodities;
 - economic conditions in Turkey's major export markets;
 - the decisions of international financial institutions regarding the terms of their financial arrangements with Turkey;
 - the impact of any delays or other adverse developments in Turkey's accession to the European Union; and
 - the impact of adverse developments in the region where Turkey is located.
- Internal factors, such as:
 - general economic and business conditions in Turkey;
 - present and future exchange rates of the Turkish currency;
 - foreign currency reserves;
 - the level of domestic debt;
 - domestic inflation;
 - the ability of Turkey to effect key economic reforms;
 - the level of foreign direct and portfolio investment; and
 - the level of Turkish domestic interest rates.

RECENT DEVELOPMENTS AND SUMMARY

GENERAL

The Republic's economy was impacted by the 2008-2009 global financial crisis but has been recovering from the crisis since the last quarter of 2009. The Republic's GDP increased by 4.0% in the third quarter of 2015 as compared to the third quarter of 2014. See "— Economic Developments".

From December 14, 2015 to January 13, 2016, the Istanbul Stock Exchange National 100 Index (since April 5, 2013 the Istanbul Stock Exchange has carried out its operations under the title of "Borsa Istanbul") increased by 4.62%.

On May 13, 2014, an explosion at a coal mine in Soma, Manisa, caused an underground mine fire. 301 people died in that disaster. Following the incident, an investigation was initiated and 24 people were taken into custody. On November 10, 2014, the indictment of the case was presented to the court by the chief public prosecutor. The indictment has been rejected by the court on four grounds, including lack of testimony, lack of evidence, violation of the principle of individual criminal responsibility and submission of charges without including the necessary technical details. On March 7, 2015, the court approved a revised bill of indictment implicating 45 people in connection with the mining incident. The lawsuit is ongoing.

On December 14, 2014, Turkish authorities made over two dozen arrests of media representatives during raids of a newspaper and TV station with close ties to the US-based Islamic cleric Fethullah Gulen, the spiritual leader of the Gulen movement, an opposition movement in Turkey. The arrests were made on charges of forgery, fabricating evidence and forming an illegal organization to oppose the state. On December 14, 2014, European Union officials Federica Mogherini and Johannes Hahn issued a joint statement stating that such actions were incompatible with the freedom of media, which is a core principle of democracy. On December 15, 2014, Turkish President Recep Tayyip Erdogan issued a statement that such steps were necessary and within the rule of law against elements that threaten national security. Following the arrests, several detainees have been released with the remaining subject to further interrogation. On December 19, 2014, the 1st Istanbul Penal Court of Peace issued an arrest warrant for Fethullah Gulen. On February 24, 2015, an Istanbul Court issued a second arrest warrant for him. On September 17, 2015, a Turkish prosecutor sought a jail sentence for Fethullah Gulen of up to 34 years. On October 19, 2015, Istanbul's High Penal Court issued an arrest warrant for Gulen and Sinan Dursun for "attempting to stage a coup, establishing and masterminding an armed organization and political espionage". On November 9, 2015, the Istanbul 14th Criminal Court ordered the arrests of Fethullah Gulen and former police officer Emre Uslu over illegal wiretapping, along with 112 suspects. On December 28, 2015, another arrest warrant has been issued for Gulen, along with 60 suspects.

In 2015, there were a series of raids against opposition media outlets and Gulen -associated businesses throughout Turkey. For example, in January 2015, several policemen were arrested for illegal wiretapping and political spying charges. On September 1, 2015, Turkish police raided the Ankara-based offices of a media group affiliated with Fethullah Gulen. Six people were arrested and a warrant was issued for the conglomerate's chief executive, Akin Ipek. On September 16, 2015, Turkish police issued warrants against eleven executives on charges of organized theft. The arrests took place in the central city of Kayseri, where police raided a university with alleged links to Fethullah Gulen. On October 26, 2015, an Ankara court appointed administrators to take control of the Koza İpek Holding, which Ankara Chief Public Prosecutor's Office links as a Gulen-associated business.

On March 27, 2015, the Assembly approved the new domestic security law (Law No. 6638). Law No. 6638 was published in the Official Gazette on April 4, 2015 (No. 29316). The new law expands the powers of the Turkish police and increases penalties for people participating in unauthorized demonstrations.

In recent years, the Republic has experienced a number of terror-related incidents. On January 6, 2015, a police station in Istanbul was bombed. In June 2015, four people died and over 400 were injured after two explosions hit the city of Diyarbakir during a pro-Kurdish HDP election rally.

After DAESH's (a synonym for the Islamic State terrorist group) terrorist attack in Suruç on July 20, 2015, and DAESH's targeting Turkey's military border post directly on July 23, 2015, Turkey initiated military actions against this terrorist organization in Syria. On July 24, 2015, Turkish Air Force bombed certain DAESH targets in Syria, based on Turkey's right of self-defense in accordance with Article 51 of the UN Charter.

On October 10, 2015, two bombs exploded in Ankara during a peace rally killing nearly 100 individuals and wounding over 200 others. On October 28, 2015, the Ankara Chief Public Prosecutor's office said a DAESH cell from Gaziantep, a province in southern Turkey that borders Syria, carried out the bombing. On January 12, 2016, a bombing in Istanbul killed at least 11 individuals including the bomber, a suspected DAESH activist based in Syria. More than a dozen other individuals were wounded in the attack. Following the suicide bombing, Turkish artillery attacked DAESH positions in Syria and Iraq, killing around 200 fighters within 48 hours.

In late July 2015, the terrorist group PKK declared an end to a two-year cease. Since July 2015, several Turkish soldiers and policemen have been killed by PKK, and Turkish security forces have carried out operations against the terrorist group in Turkey and Northern Iraq. The violence has continued to escalate resulting in hundreds of civilian as well as military casualties, and damage to infrastructure in the southeast region of Turkey. Since July 2015, there have also been airstrikes against PKK targets. In October 2015, Turkish aircraft bombed PKK targets overnight in Turkey and Northern Iraq. The Turkish Government has stated that PKK militants must relinquish their weapons and return to their camps in Northern Iraq before it will halt operations and restart peace talks.

On January 15, 2016 Turkish security forces detained 27 academics on charges of conducting terror propaganda. All of the detained academics were released after questioning.

The Republic is continuing its humanitarian efforts to provide shelter to refugees fleeing the conflict in Syria. As of January 11, 2016, 268,843 Syrian refugees occupied accommodation centers throughout Turkey. As of December 2015, the Republic spent more than U.S.\$8 billion for Syrian refugees in Turkey.

On October 6, 2015, a draft action plan was published reflecting an agreement between the EU and the Republic to cooperate on support of refugees and migration management to address the unprecedented refugee crisis created by the situation in Syria and Iraq (the "**Action Plan**"). The Action Plan identifies collaborative actions to be implemented as a matter of urgency by the EU and the Republic with the objective to assist the Republic in managing the massive influx of refugees and preventing uncontrolled migratory flows from Turkey to the EU. The Action Plan contemplates immediate implementation to be jointly steered and monitored by the European Commission and the High Representative / Vice President and the Republic through the establishment of the EU-Turkey high-level dialogue on migration. On November 29, 2015, the Leaders of the European Union met in Brussels with their Turkish counterpart. In this meeting, the European Union declared that it is committed to provide an initial 3 billion euro of resources to Turkey for Syrian refugees.

On December 10, 2015, Prime Minister Ahmet Davutoğlu announced a structural reform agenda to be completed by January 2017. The main objectives of the structural reform agenda are reaching a high income level with strong and sustainable growth and 'Inclusive Growth' which will enable all parts of the society to benefit from the strong and sustainable growth.

Turkey became a member of the G20 troika (past, current and future hosts) on December 1, 2013, and its presidency of the G20 commenced on December 1, 2014. Turkish G20 Presidency hosted the meeting of G20 Ministers of Agriculture on May 6-8, 2015, in İstanbul. This was the first time G20 Agriculture Ministers convened since 2011. G20 Agriculture Ministers expressed their strong support of global efforts to ensure food security and agreed on the importance of establishing economically, socially and environmentally sustainable food systems. The G20 Labor and Employment Ministers Meeting was held on September 3-4, 2015, in Ankara. By adopting G20 Labor and Employment Ministerial Declaration, G20 Labor Ministers agreed upon a target to reduce the share of young people who are at most risk of being permanently left behind in the labor market by 15% by 2025. The first G20 Energy Ministers Meeting in the history of the G20 was held in İstanbul on October 2, 2015, focusing on issues relating to development and access in particular. The G20 Leaders' Summit was held on November 15-16, 2015, in Antalya. After the conclusion of its term as the G20 President, Turkey passed the presidency over to China on December 1, 2015.

POLITICAL CONDITIONS

The latest general elections were held on November 1, 2015. The AKP, the CHP, the MHP and the HDP received 49.50%, 25.32%, 11.90% and 10.76% of the votes, respectively. After the elections, on November 24, 2015, AKP has formed a single party government.

The following table sets forth the composition of the Assembly by total number of seats as of January 14, 2016:

Political Party	Number of Seats
Justice and Development Party (AKP)	317
Republican People's Party (CHP)	134
People's Democratic Party (HDP)	59
Nationalist Action Party (MHP)	40
Total	550

Source: The Grand National Assembly of Turkey

Following the November 2015 elections, the Government started negotiations to form a new constitution with an aim to replace the existing constitution, which was enacted after the military coup in 1980, with a more democratic one.

INTERNATIONAL RELATIONS

On May 6, 2015, Turkey became an Associate Member of the CERN, the European Organization for Nuclear Research.

On June 18, 2015, the Minister of Energy of Russia Alexander Novak and the Minister of Productive Reconstruction, Environment and Energy of Greece Panagiotis Lafazanis signed a Memorandum of cooperation on the construction and operation of the TurkStream pipeline on the territory of Greece. On June 22, 2015, Turkey issued a permit on engineering surveys for the offshore section of the TurkStream pipeline. On September 14, 2015, Gazprom Deputy CEO Alexander Medvedev announced that the TurkStream pipeline would be postponed due to the political situation in Turkey. On December 3, 2015, Russia has announced that preparatory work on the TurkStream pipeline project was halted.

On August 7, 2015, the Northern Cyprus Water Supply project was completed with the installation of the final part of the pipeline connecting Turkey to the Turkish Republic of Northern Cyprus. In early October 2015, the first fresh water from Turkey reached the Turkish Republic of Northern Cyprus.

On November 10, 2015, the European Commission published EU Progress Report for Turkey. In its report, the European Commission urged Turkey to lift restrictions on media freedom, respect human rights and stop interfering in the judiciary. Report states that Turkey saw a deterioration of its security situation. The European Commission called for a relaunch of peace talks. Regarding the economic criteria, the report emphasized that the Turkish economy is well advanced and can be considered a functioning market economy. Additionally, it confirmed that Turkey is developing the capacity to cope with the competitive pressure and market forces within the EU. The Report also states that political dialogue on foreign and security policy continued, including on counter-terrorism, against the background of Turkey joining the international coalition against DAESH.

On December 14, 2015, Chapter 17-Economic and Monetary Policy of the EU Acquis was opened to negotiations. This brings the number of chapters opened to negotiations to 15, one of which is provisionally closed.

Cyprus

On April 26, 2015, Presidential elections were held in northern Cyprus. Mustafa Akinci won the elections by gaining 60.83% of the votes. Following the completion of the elections, comprehensive settlement negotiations resumed on May 15, 2015. On July 27, 2015, the Turkish Cypriot parliament approved the country's new coalition government.

United States

On June 11, 2012, the United States issued a waiver to Turkey from certain U.S. extraterritorial sanctions against Iran that otherwise might have applied by reference to Turkish imports of Iranian crude oil. The waiver took effect as of June 28, 2012, for a renewable period of six months and was later superseded by additional sanctions relief under the Joint Plan of Action with Iran, enabling Turkey, among other countries, to continue purchasing its current average amounts of such crude oil from January 20, 2014 forward, subject to the non-involvement of the US financial system and other US elements in those transactions. This sanctions relief was last extended on July 14, 2015 in connection with the Joint Comprehensive Plan of Action ("JCPOA") through "Implementation

Day” of the JCPOA sanctions relief, at which time the United States will suspend more broadly the relevant extraterritorial sanctions, while leaving in place the primary sanctions against the involvement of US elements in Iran-related oil transactions. On October 18, 2015, the Secretary of State issued contingent waivers of certain statutory sanctions provisions. These waivers will only take effect on Implementation Day. Until Implementation Day is reached, the only changes to the Iran-related sanctions are those provided for in the Joint Plan of Action of November 24, 2013, as extended.

On July 24, 2015, Turkey allowed its Incirlik air base to be used by the United States to fight against DAESH within a certain framework.

Syria

On May 16, 2015, a Turkish fighter jet shot down a Syrian aerial vehicle for violating Turkish air space in accordance with its rules of engagement and determination to protect its borders.

On July 24, 2015, Turkish Air Force bombed certain DAESH targets in Syria, based on Turkey’s right of self-defense in accordance with Article 51 of the UN Charter. Turkish Air Force also targeted PKK militant camps in Northern Iraq.

On August 16, 2015, having reassessed the threats stemming from the conflict in Syria, the United States and Germany decided to pull Patriot missile batteries from southern Turkey.

On December 3, 2015, the Prime Minister of Turkey announced that Turkey is setting up “physical barriers” in the 98-km (61 miles) stretch of land controlled on the Syrian side by DAESH.

On December 18, 2015 United Nations Security Council unanimously agreed a resolution endorsing an international roadmap for a Syria peace process. Turkey has announced that it supports a solution in which Bashar Assad would be transitioned out in the envisaged political transition process through absolute transfer of power to a transitional government.

Russia

Following the launch of Russian airstrikes in Syria commencing on September 30, 2015, on October 3-4, 2015, two Turkish F-16 fighter jets intercepted a Russian plane that entered Turkey’s airspace. The Republic strongly objected to the incidents and on October 5, 2015, NATO issued a statement denouncing the violation of Turkish airspace and requesting that Russia cease its attacks on the Syrian opposition and civilians, to focus its efforts on fighting DAESH, and to promote a solution to the conflict through a political transition.

On November 24, 2015, Turkey’s military downed a Russian warplane near Turkey’s border. The plane had violated Turkish air space after being repeatedly warned to change its course. Since then, relations between Turkey and Russia have deteriorated. Russia has imposed some economic sanctions to Turkey, including a ban on the import of some Turkish foods, banning Russian tourists from visiting Turkey, and a ban on charter flights to Turkey. Russia also announced an end to visa-free travel for Turks to Russia and terminated extension of labor contracts for Turks working there. On November 30, 2015, NATO has announced that Turkey has the right to protect and defend its borders following the downing of a Russian warplane.

On December 7, 2015, Deputy Prime Minister of Turkey has announced that a worst-case scenario of “zero relations” with Russia would cost Turkey about U.S. \$9 billion. On December 30, 2015, Russia broadened its sanctions against Turkey, which include restricting new Turkish construction and curbing tourism activities in Russia.

Iraq

On December 6, 2015, Turkey deployed forces to a camp in a region of northern Iraq as a routine rotation to train Iraqis to retake Mosul from DAESH. Iraqi Prime Minister said his country might turn to the U.N. Security Council if Turkish troops sent to Northern Iraq were not withdrawn within 48 hours. Later, Turkey decided to halt transfer of troops. On December 8, 2015, Iraq’s ambassador to the United Nations stated that bilateral talks between the neighboring states were proceeding favorably. On December 18, 2015, Turkey decided to move troops out of Iraq to de-escalate tensions.

ECONOMIC DEVELOPMENTS

The following table sets forth the percentage of GDP represented by economic sector (at current prices and expressed in percentages) for the periods indicated:

GDP by Economic Sector		2014	2015 Q1	2015 Q2	2015 Q3
1.	Agriculture, forestry and fishing	7.1	3.9	6.4	12.7
2.	Mining and quarrying	1.5	1.0	1.2	1.5
3.	Manufacturing	15.8	16.5	16.5	14.0
4.	Electricity, gas, steam and air conditioning supply	1.6	1.4	1.5	1.4
5.	Water supply, sewerage, waste management and remediation	0.7	0.7	0.7	0.8
6.	Construction	4.6	4.4	4.8	4.1
7.	Wholesale and retail trade	12.0	11.6	12.0	11.0
8.	Transportation and storage	11.9	10.8	11.9	11.6
9.	Accommodation and food service activities	2.6	2.1	2.1	3.9
10.	Information and communication	1.9	2.1	1.8	1.5
11.	Financial and insurance activities	3.0	3.3	2.9	3.9
12.	Real Estate activities	9.8	10.6	9.9	9.0
13.	Professional, scientific and technical activities	3.4	4.6	3.3	2.6
14.	Administrative and support service activities	2.1	2.5	2.1	1.7
15.	Public administration and defense; compulsory social security	4.2	4.8	4.1	4.3
16.	Education	3.7	4.7	3.8	3.3
17.	Human health and social work activities	1.5	1.8	1.5	1.4
18.	Arts, entertainment and recreation	0.2	0.3	0.2	0.2
19.	Other service activities	1.1	1.1	1.0	1.0
20.	Activities of household as employers	0.2	0.3	0.1	0.1
21.	Sectoral total	89.0	88.5	87.9	89.1
22.	Financial intermediation services indirectly measured	1.4	1.5	1.6	1.4
23.	Taxes-Subsidies	12.5	13.0	13.7	12.3
24.	Gross Domestic Product (Purchaser's Price)	100.0	100.0	100.0	100.0

Source: TURKSTAT

The following table sets forth increases or decreases in GDP (at constant prices and expressed in percentages) for the periods indicated:

GDP growth rates (in %)	Q1	Q2	Q3	Q4	Annual
2014	5.1	2.4	1.8	2.7	2.9
2015	2.5	3.8	4.0		

Source: TURKSTAT

For the month of December 2015, CPI increased by 0.21% and domestic PPI decreased by 0.33% as compared to the previous month.

In December 2015, the Republic's annual CPI and domestic PPI increased by 8.81% and 5.71%, respectively, as compared to the same month of the previous year.

On December 16, 2015, the Government offered an interest rate of 10.79% for its 10-year Government Bond, compared to 8.44% on November 19, 2014.

The calendar adjusted industrial production index increased by 3.5% in November 2015 compared to November 2014 (year on year).

The following table indicates unemployment figures for 2015:

2015	Unemployment rate	Number of unemployed
January	11.3	3,259,000
February	11.2	3,226,000
March	10.6	3,069,000
April	9.6	2,821,000
May	9.3	2,789,000
June	9.6	2,880,000
July	9.8	2,970,000
August	10.1	3,058,000
September	10.3	3,112,000

Source: TURKSTAT

On April 2, 2015, the Government announced an 11 item package of investment and employment initiatives to increase employment. The new package is expected to create 120,000 new jobs by increasing the number of employed in public utility professions.

On January 11, 2016, the Medium Term Program covering 2016-2018 period (the “**2016-2018 Medium Term Program**”) was announced. The main objectives of the 2016-2018 Medium Term Program are increasing stable and inclusive growth, reducing inflation, preserving the decreasing trend in the current account deficit, increasing competitiveness, employment and productivity, and improving fiscal discipline and strengthening public finance. The 2016-2018 Medium Term Program set a central government budget deficit target of 1.3% of GDP by the end of 2016, 1.0% of GDP by the end of 2017, and 0.8% of GDP by the end of 2018. In the 2016-2018 Medium Term Program, the government announced that GDP target growth is 4.5% in 2016, and 5.0% in 2017 and 2018. The primary surplus to GDP target is 0.6% for 2016, 1.1% for 2017, and 1.3% for 2018. The current account deficit to GDP ratio target is 3.9% for 2016, 3.7% for 2017, and 3.5% for 2018.

TOURISM

In November 2015, the number of foreign visitors visiting the Republic decreased by approximately 0.53% to 1,720,554 as compared to the same month of 2014. Between January and November 2015, the number of foreign visitors visiting the Republic decreased by approximately 1.36% to 34,779,841 as compared to the same period in 2014. According to the Turkish Statistical Institute, in the third quarter of 2015, tourism revenues decreased by 4.4% compared to the same period of 2014.

EMPLOYMENT AND WAGES

On December 30, 2015, the Minimum Wage Determination Commission agreed to increase the minimum wage by 30% to TL 1,300 from TL 1,000. In order to prevent a black market economy and support employers, 40% of the effective increase will be compensated by the government. There are around 5.3 million workers on minimum wage payroll in Turkey.

As of October 2015, total civilian employment was approximately 26.9 million of whom approximately 20.4% were employed in agriculture, 27.6% in industry and 52% in services sectors. Moreover, in October 2015, the labor force participation rate was at 56.5%, compared to 55.6% in October 2014. There were approximately 3,509,000 public sector workers at the end of third quarter of 2015.

As of December 2015, the total asset value of the Unemployment Insurance Fund reached to TL 93 billion. Yearly return of the fund for 2015 was 7.64%. Approximately 92% of the Unemployment Insurance Fund is invested in bonds and 8% of the assets are held in deposits.

As of the end of 2015, the number of pension funds offered to the public equaled 249. The total net asset value of these funds increased to approximately TL 48.0 billion in 2015 from TL 37.8 billion in 2014.

FOREIGN TRADE AND BALANCE OF PAYMENTS

In November 2015, the trade balance (according to provisional data) posted a deficit of U.S.\$4.236 billion as compared to a deficit of U.S.\$8.317 billion in the same period in 2014. In November 2015, total goods imported (c.i.f.), including gold imports, decreased by 10.2% to approximately U.S.\$15.974 billion, as compared to approximately U.S.\$21.385 billion during the same period in 2014. In November 2015, the import of capital goods, which are used in the production of physical capital, decreased by approximately 12.8% over the same period in 2014; the import of intermediate goods such as partly finished goods and raw materials, which are used in the production of other goods, decreased by approximately 44.9% over the same period in 2014; and the import of consumption goods decreased by approximately 6.7% over the same period in 2014. In November 2015, total goods exported (f.o.b.), decreased by 10.2% to approximately U.S.\$11.738 billion, as compared to approximately U.S.\$13.067 billion during the same period of 2014. In November 2015, the current account produced a deficit of approximately U.S.\$2.105 billion, as compared to a deficit of approximately U.S.\$5.794 billion in the same period of 2014.

Net foreign direct investment inflows into Turkey amounted to U.S.\$14.1 billion in the period of January – November 2015.

The following table summarizes the balance of payments of Turkey for the periods indicated:

in millions of US dollar	2015 Jan-Nov
CURRENT ACCOUNT	-27.837
Trade Balance	-42.693
Goods Exports	139.864
Goods Imports	182.557
Services	23.554
Primary Income	-9.560
Secondary Income	862
CAPITAL ACCOUNT	-6
FINANCIAL ACCOUNT	-10.751
Direct Investment (net)	-9.188
Portfolio Investment (net)	14.783
Assets	6.937
Liabilities	-7.846
Other Investment (net)	-16.346
Assets	12.571
Liabilities	28.917
RESERVE ASSETS	-5.184
NET ERRORS AND OMISSIONS	11.908

Source: CBRT

In the January-October 2015 period, crude oil import has increased by 42.05% compared to the same period in 2014. In October 2015, natural gas imports increased by 8.83% to 3,745.98 million sm³ compared to 3,442.02 million sm³ in October 2014. In October 2015, liquefied petroleum gas imports increased by 12.5% to 300,616.75 tons compared to 267,244.39 in October 2014.

As of October 2015, total gross international reserves of the Central Bank were approximately U.S.\$142,393 million (compared to U.S.\$148,302 million as of October 2014). As of October 2015, gold reserves were approximately U.S.\$18,439 million (compared to U.S.\$19,577 million as of October 2014) and the Central Bank gross foreign exchange reserves were approximately U.S.\$100,121 million (compared to approximately U.S.\$112,710 million as of October 2014).

As of January 13, 2015, the Central Bank held approximately TL 12.4 billion in public sector deposits.

MONETARY POLICY

The Central Bank set the annual inflation target rate for 2016 at 5.0%. The following table sets forth the quarterly inflation path and uncertainty band for 2015:

Inflation Path Consistent with the Year-End Inflation Target and the Uncertainty Band for 2015

	March	June	September	December
Uncertainty Band (Upper Limit)	7.0	7.0	7.0	7.0
Path Consistent with the Target	5.0	5.0	5.0	5.0
Uncertainty Band (Lower Limit)	3.0	3.0	3.0	3.0

Source: Central Bank

On January 13, 2016, the Central Bank foreign exchange buying rate for U.S. dollars was TL 3.0138 per U.S. dollar, compared to an exchange buying rate of TL 2.2778 per U.S. dollar on January 13, 2015.

The following table displays the period-end exchange rate of Turkish Lira per U.S. Dollar, Japanese Yen and against the US Dollar-Euro currency basket:

Period-End Exchange Rates

	2015	2016**
Turkish Lira per US Dollar	2.92	3.04
Turkish Lira per Euro	3.19	3.32
Turkish Lira per 100 Japanese Yen	2.43	2.61
Turkish Lira per Currency Basket (*)	3.05	3.18

(*) The basket consists of U.S.\$0.5 and EUR 0.5.

(**) As of January 15, 2016.

Source: CBRT

On August 18, 2015, the Central Bank announced a roadmap for the process of simplifying monetary policy. The main directives of this process are: interest rate corridor would be made more symmetric around the one-week repo interest rate and the width of the corridor would be narrowed (during normalization), overnight borrowing facility provided for primary dealers via repo transactions would be terminated (before normalization), and collateral conditions would be simplified (before and during normalization). In an effort to support financial stability, the Central Bank introduced some incentives to encourage longer term borrowing of banks, and took measures to reduce intermediation costs, among others.

On October 21, 2015, the Monetary Policy Committee held a meeting at which it kept short-term interest rates constant (compared to the prior meeting) as follows:

- a) Overnight Interest Rates: the Marginal Funding Rate was kept at 10.75%, and the borrowing rate was kept at 7.25%
- b) The one-week repo rate was kept at 7.5%
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): the borrowing rate was kept at 0% and the lending rate was kept at 12.25%

The Monetary Policy Committee stated that annual loan growth continued at reasonable levels in response to the tight monetary policy stance and macroprudential measures and that the favorable developments in the terms of trade and the moderate course of consumer loans contribute to the improvement in the current account balance. The Monetary Policy Committee also stated that external demand remained weak in the first half of the year, while domestic demand contributed to growth moderately. The Monetary Policy Committee assessed that the implementation of the announced structural reforms would contribute to potential growth significantly. The Monetary Policy Committee noted that energy price developments affect inflation favorably, while exchange rate movements delay the improvement in the core indicators. The Monetary Policy Committee also noted that considering this delay and taking into account the uncertainty in domestic and global markets and the volatility in energy and food prices, the Committee decided to implement a tighter liquidity policy as long as deemed necessary. The Monetary Policy Committee also stated that future monetary policy decisions will be conditional on the inflation outlook, and taking into account inflation expectations, pricing behavior and the course of other factors affecting inflation, the tight monetary policy stance will be maintained.

On November 24, 2015, the Monetary Policy Committee held another meeting at which it kept short-term interest rates constant compared to the prior meeting on October 21, 2015. The Monetary Policy Committee determined that developments in energy prices continue to affect inflation favorably, yet cumulative effects of the exchange rate movements delay the improvement in the core inflation trend. The Monetary Policy Committee also noted that the growth composition appears to be shifting in favor of net exports thanks to the rising demand from the EU countries. The Monetary Policy Committee stated that future monetary policy decisions will be conditional on the inflation outlook; taking into account inflation expectations, the pricing behavior and developments in other factors affecting inflation, the tight monetary policy stance will be maintained.

On December 9, 2015, the Central Bank announced the monetary and exchange rate policy for 2016. The Central Bank noted that it will maintain a price stability-oriented monetary policy framework and while aiming to keep inflation close to the target. The Central Bank stated that the uncertainty band will be maintained at 2% in both directions, as in previous years.

On December 29, 2015, the Monetary Policy Committee held another meeting at which it kept short-term interest rates constant compared to the prior meeting on November 24, 2015. The Committee stated that the desired improvement in the inflation outlook is yet to be seen. Although energy price developments continue to affect inflation favorably, cumulative exchange rate movements delay the improvement in the core inflation trend. Core inflation indicators are expected to remain at high levels in the short run. In addition, year-end unprocessed food inflation is likely to exceed the October Inflation Report projections. The effect of higher-than-targeted inflation expectations and the acceleration in wage increases necessitate close monitoring of the overall pricing behavior. Against this backdrop, the Committee stated that the tight liquidity stance would be maintained as long as deemed necessary. The Committee also stated that recent indicators suggest that domestic demand follows a more moderate course in the last quarter of the year, while external demand offers positive contribution to growth. Although geopolitical tensions pose a downside risk to external demand, the recovery in the European economies contributes to external demand. Meanwhile, the recovery in consumer confidence as well as investment and employment prospects amid waning domestic uncertainties is likely to support domestic demand in the upcoming period. Hence, economic activity is expected to maintain a stable growth trend.

As of January 14, 2016, the one-week repo auction rate of the Central Bank was 7.5%, the Central Bank overnight borrowing interest rate was 7.25% and the Central Bank Marginal Funding Rate was 10.75%.

BANKING SYSTEM

The Republic has a relatively strong, well-capitalized and profitable banking system. The banking system in the Republic had a capital adequacy ratio of 15.52% and a relatively low non-performing loan ratio of 3.05% as of November 2015. This ratio takes into account a moderate increase in non-performing retail loans.

As of November 2015, loan to deposit ratio and net income margin of banking sector is 122.69% and 3.12% respectively.

On May 29, 2015, Turkey's first state-owned participation bank (a financial institution whose activities are in compliance with Islamic rules), Ziraat Participation Bank, officially began operating.

As of August 28, 2015, the reserve requirement ratios (the "RRRs" and each, an "RRR") for foreign exchange (FX) denominated liabilities of banks and financing companies were revised in order to encourage the extension of maturities of non-core liabilities. New ratios started to be applied to the liabilities after August 28, 2015 and the maintenance period began on October 23, 2015.

<u>Liabilities other than deposits/participation funds</u>	<u>Current Ratios (%)</u>	<u>New Ratios (%)</u>
With maturity up to (and including 1 year)	20	25
With maturity up to (and including 2 years)	14	20
With maturity up to (and including 3 years)	8	15
With maturity up to (and including 5 years)	7	7
With maturity longer than 5 years	6	5

Source: CBRT

As of December 10, 2015, the RRRs for Turkish Lira deposits/participation accounts were between 5% and 8.5% depending on maturity. Furthermore, as of that date RRRs were 11.5% for Turkish Lira demand deposits, notice deposits and private current accounts, and deposits/participation accounts with maturities up to one month and three months (including 1 and 3 months).

In February 2015, the Turkish Banking Regulation and Supervision Agency (the “BRSA”) ordered the seizure of Asya Katılım Bankası, a publicly traded bank in Turkey that trades as Bank Asya, as a result of which the Turkish Savings and Deposits Insurance Fund assumed management control of the bank. The BRSA announced it was taking such action due to Bank Asya’s violation of a provision of the Banking Law that requires banks to have transparent and open shareholding and organizational structure that does not obstruct the efficient auditing of the bank by the BRSA. On May 29, 2015, the management of Bank Asya was transferred to the Savings Deposit Insurance Fund.

PUBLIC FINANCE AND BUDGET

During the period from January – December in 2015, the central government consolidated budget expenditures were approximately TL 506.0 billion and the central government consolidated budget revenues were approximately TL 483.4 billion, compared to central government consolidated budget expenditures of approximately TL 448.8 billion and consolidated budget revenues of approximately TL 425.4 billion during the same period in 2014. During the period from January – December in 2015, the central government consolidated budget deficit was approximately TL 22.6 billion, compared to a central government consolidated budget deficit of approximately TL 23.4 billion during the same period in 2014.

During the period from January – November December in 2015, the central government consolidated budget primary surplus reached approximately TL 30.4 billion, compared to the central government consolidated budget primary surplus of approximately TL 26.5 billion during the same period in 2014.

In December 2015, the central government consolidated budget expenditures were approximately TL 58.8 billion and the central government consolidated budget revenues were approximately TL 41.6 billion, compared to central government consolidated budget expenditures of approximately TL 50.5 billion and consolidated central government budget revenues of approximately TL 38.5 billion during the same period in 2014.

In December 2015, the central government consolidated budget deficit was approximately TL 17.2 billion, compared to a central government consolidated budget deficit of approximately TL 12.0 billion during the same period in 2014.

In December 2015, the central government consolidated budget primary deficit reached approximately TL 15.4 billion, compared to a central government consolidated budget primary deficit of approximately TL 10.6 billion during the same period in 2014.

The following table sets forth the details of the central government budget for the period from January-December 2015 and for December 2015.

Central Government Budget (Thousand TL)	January – December 2015 (cumulative)	December 2015
Budget Expenditures	56,874,952	17,726,246
1-Excluding Interest	10,459,912	3,110,105
Compensation of Employees	11,332,833	531,135
Social Security Contributions	53,005,740	1,734,184
Purchase of Goods and Services	483,386,422	41,593,887
Current Transfers	464,784,775	39,473,687
Capital Expenditures	407,474,654	34,729,587
Capital Transfers	19,655,281	609,778
Lending	2,208,499	156,689
2-Interest	26,540,977	2,859,946
Budget Revenues	7,932,221	498,802
1-General Budget Revenues	973,143	618,885

Central Government Budget (Thousand TL)	January – December 2015 (cumulative)	December 2015
Taxes	15,092,595	1,948,588
Property Income	3,509,052	171,612
Grants and Aids and Special Revenues	-22,606,010	-17,176,880
Interest, Shares and Fines	30,399,730	-15,442,696
Capital Revenues	56,874,952	17,726,246
Collections from Loans	10,459,912	3,110,105
2-Special Budget Institutions	11,332,833	531,135
3-Regularity & Supervisory Institutions	53,005,740	1,734,184
Budget Balance	483,386,422	41,593,887
Balance Excluding Interest	464,784,775	39,473,687

Source: Ministry of Finance

According to the Constitution, the budget law should be submitted to the Parliament at least 75 days prior to the year end. Moreover, the budget law (either provisional or not) should be enacted before the beginning of the fiscal year. However, due to the busy election calendar, the Parliament was not able to negotiate the budget. Under these circumstances, according to article 19 of the Law 5018 named Public Management and Control, a provisional budget would be enacted. The provisional budget, which covers the period between January 1, 2016 and March 31, 2016, was approved by the Parliament and published in the Official Gazette on December 23, 2015. Given that the revised Medium Term Program has been approved by the Council of Ministers, the preparation of the draft 2016 final budget law has almost been finalized, and this draft is expected to be enacted before the last day of provisional budget, i.e.: March 31, 2016.

PRIVATIZATION

The Government's plans for privatization include, among others, the remaining shares of Turk Telekom A.S., Turk Hava Yollari A.O., electricity generators/distributors, bridges and ports, toll roads, Halkbank, and the national lottery.

In 2015, the privatization implementations of Turkey amounted to an aggregate U.S.\$2 billion in value. The following indicates a summary of the most significant privatization implementations completed in 2015:

Name of The Company or Asset	Date of Privatization	Amount (US Dollar)
TCDD - Derince Port	25.02.2015	543,000,000
SEAŞ - Soma B Thermal Power Plants and immovable fixed assets of this Plant	22.06.2015	685,500,000
EÜAŞ - Orhaneli ve Tunçbilek Thermal Power Plants and immovable fixed assets of BLİ	22.06.2015	521,000,000

Note: Only privatizations worth U.S.\$100 million or more are listed above.

Overall privatization proceeds realized by the Turkish Privatization Administration (PA) since 1985 have reached U.S.\$66.92 billion as of January 15, 2016.

DEBT

On October 30, 2015, the Treasury announced the financing program for 2016. According to this program, total amount of debt service is projected to be TL 122.3 billion, comprising the payments of TL 72.0 billion in principal and TL 50.3 billion in interest. Total domestic debt service is expected to be TL 93.6 billion while total external debt service is expected to be TL 28.7 billion. On the external financing front, the Treasury announced that up to U.S.\$4.5 billion equivalent external financing is planned in 2016 through bond and lease certificate issuances in international markets and the total amount of external financing is planned to reach at most U.S.\$5.5 billion, with the inclusion of project and program loans from the World Bank, European Investment Bank and other international financial institutions.

The Central Government's total domestic debt stock was approximately TL 439.5 billion as of the end of November 2015, compared to approximately TL 413.6 billion as of the end of November 2014. In 2015, the average maturity of the Republic's domestic cash borrowing was 71.8 months, as compared to 68.5 months in 2014. The average annual interest rate on domestic cash borrowing in local currency (including discounted treasury bills/government bonds) on a compounded basis was 9.17% in 2015, compared to 9.62% in 2014.

In 2015, average external borrowing cost for dollar-denominated issuances was approximately 4.7%.

EU-defined general government debt to GDP ratio in third quarter of 2015 was 34.6%, compared to 33.5% in 2014.

The total gross outstanding external debt of the Republic was approximately US\$405,985 million (at then-current exchange rates) at the end of the third quarter of 2015. The table below summarizes the gross external debt profile of the Republic (at period end).

Gross External Debt Profile (Million USD)	2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GROSS EXTERNAL DEBT	388,140	402,229	397,587	402,482	392,798	404,880	405,985
SHORT TERM	125,690	131,555	131,487	132,813	129,452	127,087	120,830
Public Sector	17,843	18,159	18,934	17,866	18,165	16,924	15,355
Central Bank	762	661	417	342	290	270	208
Private Sector	107,085	112,735	112,136	114,605	110,997	109,893	105,267
LONG TERM	262,450	270,674	266,100	269,669	263,346	277,793	285,155
Public Sector	99,376	101,402	100,130	99,844	95,223	98,796	99,447
Central Bank	4,100	3,628	2,527	2,142	1,820	1,708	1,344
Private Sector	158,974	165,643	163,444	167,683	166,303	177,288	184,363

Source: Undersecretariat of Treasury

SUMMARY OF KEY ECONOMIC INDICATORS

The following table summarizes the key economic indicators of Turkey for the periods indicated:

	2010	2011	2012	2013	2014	2015
Nominal GDP (billion TL)	1,099	1,298	1,417	1,567	1,747	1,445*
Real GDP Growth (%)	9.2	8.8	2.1	4.2	2.9	3.4*
Unemployment (%)	11.2	9.2	8.4	9.1	10.0	10.2
Consumer Price Index (%)	6.40	10.45	6.16	7.40	8.17	8.81
Domestic Manufacturing Producer of Price Index (%)	6.02	13.3	5.5	4.5	11.4	5.9
Current Account Deficit (million USD)	45,312	75,008	48,535	64,658	46,526	27,837**
Public Sector Budget Primary Balance /GDP (%)	0.7	1.8	0.8	1	0.6	0.8***
Central Government External Debt Stock (million USD)	78,085	79,184	81,710	85,663	85,162	81,099**
Public Sector Borrowing Requirement/GDP (%)	2.4	0.1	1	0.5	0.6	0***

Source: TURKSTAT, CBRT, Treasury

* 9 months

** As of November

*** 2016-2018 Medium Term Program target

In 2015, growth was mainly driven by the increase in domestic demand and private investments. External demand's contribution to growth has been negative. The unemployment rate increased due to the rise in labor force participation. Inflation increased due to increases in food prices and unfavorable exchange rates. The current account deficit in 2015 improved due to the decline in oil and commodity prices. The current account is mainly financed through long-term sources and direct capital investments. Domestic debt security yields have been increasing primarily because of the overall increase in global rates and tight liquidity conditions.

DESCRIPTION OF THE REPUBLIC

Turkey has a democratically elected parliamentary form of government. Since its founding in 1923, Turkey has aligned itself with the west and is a member of numerous international organizations, including the North Atlantic Treaty Organization (“NATO”), the Council of Europe, the World Bank, the International Monetary Fund (“IMF”) and the Organization for Economic Cooperation and Development (the “OECD”). Turkey is also an associate member of the EU and a founding member of the European Bank for Reconstruction and Development (the “EBRD”).

Since 1980, the Turkish Government has embarked upon a series of market-oriented reforms which, among other things, were designed to remove price controls and reduce subsidies, reduce the role of the public sector in the economy, emphasize growth in the industrial and service sectors, encourage private investment and savings, liberalize foreign trade, reduce tariffs and promote export growth, ease capital transfer and exchange controls and encourage foreign investment, increase the independence of the Central Bank and reform the tax system. Turkey moved towards full convertibility of the Turkish Lira by accepting the obligations of Article VIII of the IMF Articles of Agreement in March 1990. Turkey has developed a market-oriented, highly diversified economy with growing industrial and service sectors, while retaining a prominent agricultural sector that makes the country largely self-sufficient in foodstuffs. According to the Ministry of Development, in 2014, agriculture, industrial sector and services sector accounted for 8.0%, 22.0% and 70.0% of GDP respectively. The average GDP growth rate during the 2010-2014 period was 5.4%. See “Economy—Services,” “Economy—Industry” and “Economy—Agriculture.”

LOCATION, AREA AND TOPOGRAPHY



Turkey, situated at the junction of Europe and Asia, is an important crossroads between Western Europe, the Middle East and Asia. Turkey’s location has been a central feature of its history, culture and politics. Turkey’s land borders extend for more than 2,600 kilometers and are shared with eight countries: Greece and Bulgaria in the west and northwest, Iran in the east, Armenia, Georgia and Azerbaijan in the northeast, and Iraq and Syria in the south.

Turkey’s coastline extends for approximately 7,200 kilometers along the Black Sea in the north, the Aegean Sea in the southwest and the Mediterranean Sea in the south, all of which are connected by the Bosphorus, the Sea of Marmara and the Dardanelles.

Turkey has an area of approximately 814,578 square kilometers (inclusive of its lakes), and its topography is varied. Most of the country consists of highland plateau surrounded by mountainous areas which rise toward the east. Climatic conditions differ widely among the regions.

POPULATION

According to estimates of the Turkish Statistical Institute (“TURKSTAT”) and the Ministry of Development, the population of Turkey was 77,695,904 on December 31, 2014. The annual population growth rate for Turkey in 2014 was 1.3%, compared to an annual growth rate of 1.4% in 2013. Turkey’s population is relatively young compared to other European countries, and the transformation of Turkey’s economy from a largely agricultural economy to an industrial and service-oriented economy has led to an increasingly urban population. According to TURKSTAT and the Ministry of Development, in 2012, 77.3% of the population lived in urban areas and 22.7% lived in rural areas. In 2012, the median age of the population in Turkey was 30.1, with a median age of 29.5 for males and 30.6 for females. Persons of working age, the age group of 15-64, constituted 67.7% of the total population in 2013.

The largest city in Turkey, with a population of about 13.9 million, is Istanbul, the country’s commercial center. Its history and heritage has allowed the city to be named the European Capital of Culture in 2010. Ankara, the capital city of Turkey, with a population of about 4.97 million is the second largest city. Izmir, with a population of about 4.0 million, comes in third in terms of population level. Other cities with populations in excess of one million are (in alphabetical order) Adana, Antalya, Aydin, Balikesir, Bursa, Diyarbakir, Gaziantep, Hatay, Kahramanmaraş, Kayseri, Kocaeli, Konya, Manisa, Mersin, Samsun, Sanliurfa and Van.

In 2014, total employment was 25,933 million, with approximately 21.1% employed in agriculture, 20.5% in industry and 58.4% in services (including construction). See “Economy-Employment and Wages.” The unemployment rate was 9.9% in 2014.

According to the Ministry of Development, Turkey has made significant progress in improving social welfare over the last decade. Life expectancy increased from an average of 67.4 years in 1990 to an average of 76.9 years in 2013. The infant mortality rate decreased from 51.5 per thousand live births for the year 1990 to 11.1 per thousand live births for the year 2014. According to the Address Based Population Registration System, the adult literacy rate among individuals aged 6 years and over increased sharply from 80.5% in 1990 to 96.1 in 2014.

Turkey is constitutionally a secular state. The vast majority of the Turkish population is Muslim. There are very small numbers of non-Muslims in Turkey, including Greek Orthodox, Armenian Christians and Jews. The official language of Turkey is Turkish.

GOVERNMENT ORGANIZATION AND POLITICAL BACKGROUND

A popular nationalist movement began in Turkey before the turn of the 20th century and gathered momentum in the aftermath of World War I. Turkey was declared a republic on October 29, 1923, upon the abolition of the Sultanate. Mustafa Kemal Ataturk was elected as Turkey’s first President. Ataturk instituted a series of sweeping social reforms that have played a central role in the development of modern Turkey. The Constitution of Turkey (the “Constitution”) was adopted in 1924 and provided for an elected Grand National Assembly (the “Assembly”) to be the repository of sovereign power. Executive authority was vested in the Prime Minister and the Council of Ministers (the “Cabinet”). Changes were made in the legal, political, social and economic structure of Turkey, and Islamic legal codes were replaced by Western ones. Ataturk’s reforms and Western orientation continue to be the dominant ideological element in Turkey today.

The Turkish military establishment has historically been an important factor in Turkish government and politics, interfering with civilian authority three times since 1959 (in 1960, 1971 and 1980). Each time, the military withdrew after the election of a new civilian government and the introduction of changes to the legal and political systems.

Turkey’s current Constitution, which was revised and ratified by popular referendum in 1982, contains a system of checks and balances aimed at ensuring a strong central government and reducing factionalism in the Assembly. The Constitution provides for the Assembly, a President and a Prime Minister. Pursuant to a 2007 amendment to the

Constitution, the President is elected by the absolute majority vote of the public. Prior to this amendment, the President was elected by the Assembly. The President is elected for a five-year term, and can serve a maximum of two terms. The Prime Minister is appointed by the President from the Assembly. The Prime Minister, in turn, nominates other members of the Cabinet, who are then approved by the President. The Cabinet, chaired by the Prime Minister, exercises the executive powers of the Government.

The members of the Assembly are elected for four-year terms. The Constitution provides for a system of proportional representation and forbids the formation of political parties on the basis of class, religion or ethnic identity. The Law No. 2839 provides that parties whose nationwide vote in general elections is less than 10% are not eligible for seats in the Assembly.

Judicial power in Turkey is exercised by courts whose independence is guaranteed by the Constitution. The Constitutional Court (the “Constitutional Court”) decides issues relating to the form and substance of laws, decrees and rules of the Assembly and matters relating to public officials and political parties. The Court of Appeal is the court of last resort for most civil and criminal matters, while military matters are referred to a separate system of courts.

On July 25, 2008, the 13th Penal Court of Istanbul agreed to hear a case against 86 people (including two senior retired army officials, one political party leader and a number of journalists and non-governmental organization members) accused of, among other things, inciting an armed insurrection, aiding a terrorist group and plotting to overthrow the government. Over time, the investigation continued and additional defendants were charged. On August 5, 2013, 254 of the 275 defendants were convicted. In March 2014, the former chief of staff, sentenced to life imprisonment, was released by a decision of the Constitutional Court, on the grounds that he had been ‘unlawfully deprived of his freedom’. As a result of the court’s decision, more than 50 people convicted in the case were also released. In May 2015, the Supreme Court of Appeals Prosecutor’s Office has requested the reversal of the decision. The 16th Criminal Chamber of the Supreme Court of Appeals will hold the first hearing in the appeal case on October 6, 2015.

On September 21, 2012, in a separate case involving a plot to overthrow the government in 2003, over 300 military officials were sentenced to prison terms ranging from six years to twenty years. On October 9, 2013, the Supreme Court of Appeals ordered the retrial of 88 convicted suspects, while approving the convictions of 237 suspects in the case. After merging 230 separate individual appeals that were filed by the convicts, on June 18, 2014, the Constitutional Court ruled that the convicted suspects’ rights were violated concerning “digital data and defendants’ testimony,” requiring the cases of the suspects to be retried in local courts in order to eliminate the violations. On March 31, 2015, all suspects in the case were acquitted.

The AKP won the general elections held on June 12, 2011 with 49.8% of the eligible votes and formed the 61st Government of the Republic. CHP and MHP received 25.98% and 13.01% of the votes respectively.

The most recent local elections for municipalities were held on March 30, 2014. The AKP received 42.87% of the votes cast for the seats in councils of the municipalities. The CHP, the MHP and the Peace and Democracy Party (BDP) received 26.34%, 17.82% and 4.16% of the votes, respectively.

On August 10, 2014, the presidential elections were held. Recep Tayyip Erdogan was elected by absolute majority vote to a five-year term as president. Recep Tayyip Erdoğan received 51.79% of the total votes, whereas Ekmeleddin İhsanoglu, the joint candidate of the Republic’s two largest opposition parties, claimed 38.44% and Selahattin Demirtas, candidate of the pro-Kurdish Democratic Regions Party (formerly the Peoples’ Democracy Party), won 9.76%.

On December 14, 2014, Turkish authorities made over two dozen arrests of media representatives during raids of a newspaper and TV station with close ties to the US-based Islamic cleric Fethullah Gulen, the spiritual leader of the Gulen movement, an opposition movement in Turkey. The arrests were made on charges of forgery, fabricating evidence and forming an illegal organization to oppose the state. On December 14, 2014, European Union officials Federica Mogherini and Johannes Hahn issued a joint statement stating that such actions were incompatible with the

freedom of media, which is a core principle of democracy. On December 15, 2014, Turkish President Recep Tayyip Erdogan issued a statement that such steps were necessary and within the rule of law against elements that threaten national security. Following the arrests, several detainees have been released with the remaining subject to further interrogation. On December 19, 2014, the First Istanbul Penal Court of Peace issued an arrest warrant for Fethullah Gulen.

The latest general elections were held on June 7, 2015. The AKP, the CHP, the MHP and the HDP received 40.66%, 25.13%, 16.45% and 12.96% of the votes, respectively. The following table sets forth the composition of the Assembly by total number of seats as of July 31, 2015:

<u>Political Party</u>	<u>Number of Seats</u>
Justice and Development Party (AKP)	258
Republican People's Party (CHP)	131
Nationalist Action Party (MHP)	80
People's Democratic Party(HDP)	80
Independents	1
Total	550

Source: The Grand National Assembly of Turkey

FOREIGN POLICY

Since the foundation of the Republic, Turkey's foreign policy has been guided by the principle of "peace at home, peace in the world." Over the years, the country's foreign policy has developed, always on the basis of this principle and in line with changes in the domestic and international environment.

As a democratic, secular and economically thriving country located at the center of a strategic and dynamic region, Turkey actively pursues a responsible, constructive and multidimensional foreign policy. Facing a multitude of opportunities and challenges in surrounding regions, Turkey seeks to be a positive influence and to help generate stability, security and prosperity in its region and beyond.

In pursuit of creating peace and prosperity in the surrounding region, Turkey aims to further develop its relations with neighboring countries through initiatives towards strengthening political dialogue, economic interdependence and social-cultural interaction among regional countries. The key element of this policy is fostering an environment where all regional actors can become part of the solution and agree on a common vision based on their shared interests.

Deepening existing strategic relations with European and Transatlantic political, economic and security structures and continuing the accession negotiations with the European Union (the "EU") remain the main pillars of Turkish foreign policy. At the same time, drawing strength from its increased economic and political capabilities, Turkey has been more actively involved in a wider geography and in a wider set of global issues. In this context, Turkey has been developing and strengthening its relations bilaterally as well as with regional organizations in Africa, Asia-Pacific, and Latin America and the Caribbean. Turkey has also been taking on greater responsibility in global humanitarian and development initiatives, thus becoming a leading donor country internationally. Furthermore, Turkey has been playing a more prominent role in peace building and conflict prevention efforts, serving as a mediator or facilitator in various conflicts across the world as well as by initiating multilateral initiatives such as the United Nations Alliance of Civilizations and Mediation for Peace towards promoting tolerance and strengthening the role of mediation in the United Nations (the "UN") and other international forums.

Strong commitment to human rights, the rule of law and democracy are among the guiding principles for Turkey in pursuing foreign policy objectives. With this understanding, Turkey gives its full support to protection, promotion and effective implementation of fundamental human rights in its surrounding region and beyond, as well as making significant contributions to the international standard-setting activities with respect to human rights.

Turkey has become party to the principal international human rights treaties of the UN.

Turkey is party to the European Convention on Human Rights and to a large number of protocols and other Council of Europe Conventions, including Protocol 6 and 13, abolishing the death penalty in all circumstances.

A series of comprehensive reforms have been introduced in line with Turkey's international commitments and aspirations to further improve the standards of human rights, the rule of law and democracy. Existing legislation has been revised with a view to further align the domestic legal framework with international standards and principles, particularly those set by the European Court of Human Rights and the EU's Copenhagen political criteria.

Turkey is committed to pursuing an active foreign policy which aims to strike a balance between national interests and universal values. In the face of many challenges presented by the current international environment, Turkey will continue its policies with the goal of ensuring that opportunities and cooperation prevail over risks and conflicts.

INTERNATIONAL ORGANIZATIONS

The Republic of Turkey has always placed great importance on multilateral cooperation and thus has played an active role in regional and international organizations. Its vision of contributing to peace and stability has not been limited to neighboring regions, rather Turkey's involvement has highlighted the importance of political dialogue, increased social, cultural and economic interaction, cultural harmony and tolerance among all nations to avoid tensions and conflicts. Through the years, the country has greatly contributed to disseminating these messages to other countries and regions to ensure a free, prosperous and secure world for all. Turkey is the founding member of the UN, the Council of Europe, the EBRD and the Organization for Security and Cooperation in Europe (OSCE). Turkey is also a member of NATO, the OECD, the World Trade Organization ("WTO"), the Organization of the Islamic Cooperation ("OIC"), Islamic Development Bank, the Black Sea Economic Cooperation Organization ("BSEC"), the Economic Cooperation Organization ("ECO"), the Developing 8 ("D-8") and the Conference on Interaction and Confidence Building Measures in Asia ("CICA"). Turkey also has either an "observer" or a "partner" status at various regional organizations, such as the African Union, Arab League, ASEAN, Shanghai Cooperation Organization and Organization of American States. Turkey also participates in the Euromed/Barcelona Process. Furthermore, Turkey is a member of the World Bank, the IMF, the European Resettlement Fund, the Asian Development Bank, the Multilateral Investment Guarantee Agency ("MIGA"), the Bank for International Settlements ("BIS") and is a participant in the International Convention on the Harmonized Commodity Description and Coding System. As one of the founding members of the UN, Turkey has been playing an active and constructive role regarding all issues on the UN agenda. During the 2009-2010 period,

Turkey served on the UN Security Council (UNSC) as a non-permanent member. Throughout its UNSC membership, Turkey followed a balanced, transparent and principled stance in dealing with the complex issues on the UNSC's agenda.

Turkey is a founding and an active member of the Organization of the Islamic Cooperation ("OIC") and will host the 13th Islamic Summit of the OIC from March 31 to April 1, 2016 in İstanbul. Starting with this Summit, Turkey will assume the Summit Chairmanship for a period of three years.

Turkey is a member of The Group of Twenty ("G-20"). At the G-20 Leaders' Summit in Cannes in 2011, it was announced that Turkey would assume the presidency of the G-20 in 2015. Turkey became a member of the G-20 troika (past, current and future hosts) on December 1, 2013 and its presidency of the G-20 commenced on December 1, 2014.

Turkey is one of the founding members of International Maritime Organization ("IMO") and a member of its Executive Council since 1999. Turkey, particularly in the last decade, has intensified its efforts to improve the standards of its merchant fleet and to harmonize its legislation with the EU acquis in areas like maritime safety, fisheries and shipping. Turkey is also party to major IMO Conventions and Protocols.

Moreover, Turkey became an Associate Member of CERN, the European Organization for Nuclear Research, on May 6, 2015, following Turkey's ratification of the Associate Member Agreement signed in 2014, granting Associate Member status to the country. Turkey's Associate Membership will strengthen the long-term partnership between CERN and the Turkish scientific community.

INTERNATIONAL RELATIONS

EUROPEAN UNION

In 1963, Turkey signed an association agreement (Ankara Agreement) with the European Economic Community ("EEC"), which is now the EU. In 1970, an additional protocol to the Ankara Agreement was signed which established the framework and conditions of the transitional stage of the association. In April 1987, Turkey submitted its formal application for full membership in the EU. In December 1989, the European Commission in its "Opinion on Turkey's Request for Accession to the Community" determined that the EEC could not accept a new member or engage in new accession negotiations prior to 1993, at the earliest. Moreover, the opinion stated that Turkey would have to fulfill certain requirements in terms of the country's economic, social and political developments prior to any accession negotiations.

With the completion of the Customs Union, the association between Turkey and the EU, in accordance with the Ankara Agreement, entered its final stage and at the European Council (the "EU Summit") held in Helsinki in December 1999, Turkey was granted

candidate status. The recognition of Turkey as a candidate country for accession to the EU ushered in a new era in Turkey-EU relations. The Accession Partnership Document for Turkey was approved by the Council of the European Union (the “Council”) on March 8, 2001. In response, the Turkish Government adopted its National Program for the Adoption of the Acquis (“NPAA”) on March 19, 2001. Both the Accession Partnership Document and the NPAA are revised on a regular basis to take note of the progress made and to include new goals and priorities.

In December 2004, following the EU’s decision to start accession negotiations with Turkey, the Government confirmed that it was ready to sign the Additional Protocol extending the Ankara Agreement to all members of the EU prior to the actual start of accession negotiations. However, Turkey placed on record that this would in no way imply a formal legal recognition of the Greek Cypriot Administration by Turkey. The Additional Protocol extending the Ankara Agreement to 16 EU member states was concluded by an exchange of letters among Turkey, the EU Presidency and the European Commission on July 29, 2005. Turkey issued an official declaration, as an integral part of its letter, that its signature, ratification and implementation of the Protocol neither amount to any form of recognition of the Republic of Cyprus referred to in the Protocol; nor prejudice Turkey’s rights and obligations under the Treaty of Guarantee, the Treaty of Alliance, and the Treaty of Establishment of 1960. Accordingly, Turkey stated that, pending a comprehensive settlement, its position on Cyprus would remain unchanged and expressed its readiness to establish relations with the new Partnership State, which would emerge following a comprehensive settlement in Cyprus.

The European Council (the EU Summit) of 2004 confirmed that Turkey had fulfilled the “Copenhagen criteria,” which enumerates the prerequisites for opening accession negotiations with Turkey and on October 3, 2005, the Turkey-EU Intergovernmental Conference met for the first time, officially initiating the accession process.

Accession Negotiations

In Turkey’s EU accession negotiations, 14 chapters have been opened to negotiations, outlined in the table below, and one chapter is temporarily closed.

Chapters open to negotiations:

Chapter 25- Science and Research (provisionally closed) (Austria, 12.06.2006)

Chapter 20- Enterprise and Industrial Policy (Germany, 29.03.2007)

Chapter 18- Statistics (Germany, 26.06.2007)

Chapter 32- Financial Control (Germany, 26.06.2007)

Chapter 21- Trans-European Networks (Portugal, 19.12.2007)

Chapter 28- Consumer and Health Protection (Portugal, 19.12.2007)

Chapter 6- Company Law (Slovenia, 17.06.2008)

Chapter 7- Intellectual Property Law (Slovenia, 17.06.2008)

Chapter 4- Free Movement of Capital (France, 19.12.2008)

Chapter 10- Information Society and Media (France, 19.12.2008)

Chapter 16- Taxation (Czech Republic, 30.06.2009)

Chapter 27- Environment (Sweden, 21.12.2009)

Chapter 12- Food Safety, Veterinary and Phytosanitary Policy (Spain, 30.06.2010)

Chapter 22- Regional Policy and Coordination of Structural Instruments (Lithuania, 05.11.2013)

Although more than nine years have passed since the screening process, there are still nine chapters for which screening reports have not been approved and opening benchmarks have not been communicated to Turkey. Those chapters are: Chapter 2-Freedom of Movement for Workers, Chapter 13-Fisheries, Chapter 14- Transport Policy, Chapter 15-Energy, Chapter 23-Judiciary and Fundamental Rights, Chapter 24-Justice, Freedom and Security, Chapter 30-External Relations, Chapter 31-Foreign, Security and Defense Policy, Chapter 33-Financial and Budgetary Provisions.

According to the EU General Affairs and External Relations Council Decision of 11 December 2006, fulfilment of Turkey's commitments under the Additional Protocol is the opening benchmark for eight chapters and the closing benchmark for all chapters.

The aforementioned decision states that: "The Council decided in particular to suspend negotiations on eight chapters relevant to Turkey's restrictions with regard to the Republic of Cyprus, and will not close the other chapters until Turkey fulfils its commitments under the additional protocol to the EU-Turkey association agreement, which extended the EU-Turkey customs union to the ten member states, including Cyprus, that joined the EU in May 2004."

Moreover, during the EU General Affairs Council (the Council) meeting of December 8, 2009, Greek Cypriots unilaterally declared that “normalization” of relations is a precondition for progress in 6 chapters: Chapter 2 - Free Movement of Workers, Chapter 15 – Energy, Chapter 23 - Judiciary and Fundamental Rights, Chapter 24 - Justice, Freedom and Security, Chapter, 26 - Education and Culture, Chapter 31 - Foreign, Security and Defense Policy.

As a result, 14 chapters have been politically blocked in light of the Cyprus issue. Turkey is ready to revive the process and proceed in the negotiations, which, however, may be difficult as long as the political blockages are in place. Currently, Turkey’s priority is to open Chapter 17-Economic and Monetary Policy. Following the subcommittee meeting on March 13, 2015, Turkey submitted its complementary Negotiating Position to the EU on March 20, 2015. At the same time, Common Position of the EU was prepared by the European Commission and submitted to the Council. Turkey expects the Chapter to be open to negotiations in the near future.

Further Efforts to Accelerate Accession Negotiations

1. Turkey’s New EU Strategy

The 62nd Government of Turkey was formed on August 29, 2014 and H.E. Ambassador Volkan Bozkır became Minister for EU Affairs and Chief Negotiator. The Government reiterated its commitment to the EU accession process through Turkey’s New EU Strategy (EU Strategy), which was announced by Mr. Bozkır on September 18, 2014. The EU Strategy rests on three pillars: determination in the political reform process, continuity in socio-economic transformation and effectiveness in communication.

The first pillar of the strategy involves the political reform process. The Reform Monitoring Group, which was established in 2003 and ensures the proper implementation of political reforms in Turkey, has been restructured as the Reform Action Group (RAG) to ensure more effective functioning of the reform implementation process. RAG will not only monitor the political reforms but also prepare and implement the reforms. The two initial meetings of the RAG were held on November 8, 2014 and February 20, 2015.

The second pillar of the EU Strategy is socio-economic transformation in Turkey, which is a continual process essential to fostering and consolidating democracy. Accordingly, a two-phase National Action Plan has been established, which focuses, among other things, on proper enforcement of relevant legislation to further raise the living standards of Turkish citizens. The National Action Plan is expected to be implemented in two phases, the first phase covers the period between November 2014 and June 2015 and the second phase covers the period between June 2015 and June 2019. The National Action Plan sets out priorities of Turkey in the negotiation of chapters with respect to the alignment of primary and secondary legislation with the EU acquis, as well as institutional capacity building initiatives along with other relevant work.

Moreover, to ensure that new legislation is drafted in line with the *acquis*, the Prime Ministry issued a Circular on September 25, 2014, which designates the EU Ministry as the coordinator institution to oversee the accession process.

The third pillar of the EU Strategy, Turkey's "EU Communication Strategy," was announced to the public on October 16, 2014. The EU Communication Strategy has two dimensions. The first dimension covers communication within the country, which aims to contribute to the domestic perception of the Turkish people of the EU accession process as a modernization project that aims to improve the living standards of Turkish people. The second dimension of the strategy addresses the European public opinion of Turkey and its accession negotiations with the EU.

In this context, the Ministry for EU Affairs hosted Civil Society Dialogue Meetings in six different cities, including İstanbul (on November 26, 2014), İzmir (on February 19, 2015), Konya (on March 18, 2015) Adana (on March 24, 2015), Bursa (on April 22, 2015) and Antalya (on April 28, 2015). Hundreds of Civil Society Organizations ("CSOs") representing businesses, universities, different interest groups and local administrations were invited and over 2,000 participants in each of those cities attended the meetings. During the meetings, CSOs expressed their thoughts about Turkey's EU accession process and shared their opinions/recommendations on how to establish a better dialogue between civil society and the public sector and participate more actively in every aspect of this process. The meetings created a forum and an opportunity not only for the CSO's voices to be heard, but also for the Ministry to explain to the CSOs the goals of the EU Strategy, as well as discuss the EU funds available for CSO's development, and for promoting public-civil society dialogue and civil society dialogue between Turkey and EU.

Within the framework of the "New European Union Communication Strategy," to ensure contribution of all segments of Turkish society to the EU accession process, the Ministry for EU Affairs continues to take determined steps, such as opening its second Office in Antalya on December 21, 2014 and its third Office in İzmir on February 19, 2015, in addition to its headquarters in İstanbul. The three offices plan to work together to achieve harmonization and effective implementation of the EU *acquis* at a local level. The offices also plan to work in close cooperation with NGOs, municipalities, and public institutions in all EU related activities at the local level and to ensure efficient use of EU financial assistance to Turkey.

2. Sub-Committees

In order to monitor progress made with respect to the goals outlined in the Accession Partnership Document and align with EU *acquis*, eight sub-committees to the Association Committee were established by Decision No: 3/2000 of the EC-Turkey Association Council on April 11, 2000. However, because the subcommittees were established before the accession negotiations began, they remained a mechanism to harmonize the EU *acquis*, and therefore they lacked the capabilities needed to effectively respond to the challenges of the negotiation process.

These problems also affected continuity of sub-committee meetings and sub-committees had not met for nearly 3 years. Meanwhile, the success of the Positive Agenda exercise and the working groups established has shown that working on a chapter basis is much more efficient and result-oriented. Based on the results obtained from the working group experience, Turkey and the European Commission agreed on a new chapter-based methodology for sub-committee meetings. To date, six sub-committee meetings employing this methodology have already been held. The remaining sub-committees as well as some chapter-based meetings are planned to be held in autumn. Turkey expects sub-committees to deal specifically with opening and closing benchmarks and to be informed via official letters from the European Commission about the progress being made with respect to relevant benchmarks following sub-committee meetings.

3. Dialogue Platforms

Recently, new dialogue platforms were established between Turkey and the EU. Turkey welcomes intensifying the dialogue for deepening Turkey-EU relations, however the dialogue mechanisms between Turkey and the EU are not a substitute for the accession process. These mechanisms complement and support the accession process. For example, one of such dialogue platforms is the Turkey-EU Political Dialogue Meetings at Ministerial Level, which are being held regularly and have been since 2010. In these meetings, Turkey-EU relations and the accession process are discussed comprehensively and views are exchanged on regional and global issues which concern both parties. The EU-Turkey Strategic High Level Energy Dialogue was launched on March 16, 2015 and demonstrates the willingness of Turkey and the EU for further cooperation. Turkey is a natural energy hub between the energy resources of the Middle Eastern and Caspian Regions and the EU energy markets. Turkey's development as an energy hub would be beneficial to both Turkey and the EU. Turkey hopes to set up new platforms in the future, such as a high level economic dialogue platform as well as others.

Political Reforms

Since 1999, a comprehensive transformation and reform process in line with the goal of EU accession has been underway. Turkey's objective is full compliance with the EU Copenhagen political criteria and political reforms in the areas of human rights, democracy and the rule of law, which are prerequisites to EU accession.

Within the framework of the reform process, eight harmonization packages were enacted between February 2002 and July 2004. In this period, the Turkish Constitution was amended twice, revising nearly one-third of the articles of the Constitution. The amendments covered a wide range of issues related to improving human rights, strengthening the rule of law and restructuring democratic institutions. The Constitutional amendments were followed by legislative and administrative measures to ensure the

proper implementation of these amendments. The Constitutional amendments were fortified by the adoption of laws that are fundamentally important for the protection of human rights. These Laws include the new Civil Code, the new Penal Code, the new Law on Associations and the new Code of Criminal Procedure. These reforms aim at strengthening democracy, promoting respect for human rights and fundamental freedoms, and consolidating the rule of law and the independence of the judiciary.

The Reform Monitoring Group, a ministerial group consisting of the Minister for EU Affairs and Chief Negotiator, the Minister of Justice, the Minister of Foreign Affairs and the Minister of Interior, was set up in 2003 and gathered continuously afterwards. As mentioned previously, following its last meeting in July 2014, the Reform Monitoring Group was restructured as the Reform Action Group (“RAG”). There already exists significant coordination between the participating Ministries in RAG, which are supportive of new and comprehensive reform initiatives. The RAG will no longer just monitor the political reforms, but it will also take on an active role in the whole cycle of the reform agenda, contributing to the preparation, adoption and implementation phases of reforms.

Furthermore, reforms with respect to freedom of thought and expression, freedom of association and peaceful assembly and freedom of religion have been implemented. There have also been reforms related to the judicial system, civil-military relations and anti-corruption measures. Relevant legislation has been changed to enable the learning of and broadcasting in languages and dialects which are used traditionally by Turkish citizens in their daily lives. In addition, the death penalty has been abolished and the prison system has been reformed. The right to property of community foundations belonging to certain minorities in Turkey has been ensured and the legal basis needed for the activities of foreign foundations in Turkey has been established. New definitions and measures to deal with illegal immigration have been introduced.

The Ninth Reform Package was introduced on April 12, 2006. This harmonization package contained pieces of legislation in the fields of transparency, ethics and civil-military relations, as well as legislation supporting the adoption of international conventions on human rights and fundamental freedoms. These included the UN Convention on Corruption, Protocol No. 14 to the Convention for the Protection of Human Rights and Fundamental Freedoms, amending the control system of the Convention, and the Revised European Social Charter and the Protocol amending the European Social Charter. Amendments to the following laws were adopted and put into force within the framework of the Ninth Reform Package: Law on Private Education Institutions, Law on Settlement and Law on Establishment and Legal Procedures of Military Courts.

On March 24, 2009, the Commission for Equal Opportunity between Women and Men was established in the Turkish Grand National Assembly with the primary goal of contributing to the protection and development of women’s rights. The Commission for Equal Opportunity continues to monitor developments on this issue at the national and international levels.

In June 2009, the Turkish Parliament adopted legislation which restricts the jurisdiction of military courts and enables civilian courts to try military personnel for non-military offences. This legislation also eliminates the powers of military courts to try civilians in peace time and has enabled the formation of military courts only with professional military judges by removing non-judge members of such courts, thus further aligning Turkey's practices with EU practices. The Law came into force on June 30, 2010.

The comprehensive constitutional amendment adopted in 2010 led to improvements in the area of the judiciary and in the area of rights and freedoms which are mainly introducing positive discrimination for women, children and vulnerable people including the elderly and the disabled, and freedom of assembly. The majority of the amendments have made it possible to eliminate or alleviate several shortcomings identified in the decisions of the European Court of Human Rights and to comply with a range of recommendations and assessments, put forward either within the framework of the accession negotiations with the European Union or by the Commissioner for Human Rights of the Council of Europe, the Venice Commission, European Commission against Racism and Intolerance, Monitoring Committee of the Parliamentary Assembly of the Council of Europe, UN Committee on the Elimination of Discrimination against Women, UN Committee on the Elimination of Racial Discrimination and several other international monitoring mechanisms.

In 2009, the Government launched the "National Unity and Brotherhood Project," publicly known as the "Solution Process." The main objective of the Solution Process is raising democratic standards in Turkey for all citizens without any discrimination. The Solution Process has led not only to an open public debate but also to certain improvements in the area of cultural rights. The barriers to learning and supporting the different languages and dialects used traditionally by the Turkish citizens and to their use in political campaign were removed and the Government took many supportive measures to keep these languages alive. These supportive measures included broadcasting in different languages and dialects programs on state-owned television and radio and the establishment of institutions and introduction of academic centers to preserve these languages, as well as offering elective courses to teach these languages in compulsory education.

In December 2009, amendments were made to the By-law on Associations to facilitate the process of creating and establishing business associations.

The Democratization Package announced on September 30, 2013 proposed comprehensive reforms for further improvement and enjoyment of a wide-spectrum of civil and political rights. The package includes, allowing political discourse in languages and dialects other than Turkish, facilitation of local organization of political parties, enabling education in languages and dialects other than Turkish in private schools, lifting

restrictions on renaming villages and the use of letters Q, X, W, ending the ban on women wearing headscarves in public service, enacting a comprehensive anti-discrimination legislation and establishment of the Anti-Discrimination Commission, as well as ensuring that a bigotry motive is taken into account as an aggravating circumstance in criminal proceedings.

After five years' implementation, the Judicial Reform Strategy, which aims to further strengthen the independence, impartiality, efficiency and effectiveness of the judiciary, was renewed in 2015 with the contributions of all stakeholders in an open dialogue. Within the framework of the Judicial Reform Strategy, Turkey has adopted six judicial reform packages beginning in 2011. The amendments to the legislation were introduced to strengthen independence and impartiality and increase the effectiveness of the judiciary as well as to reduce the backlog of cases.

The First and Second Judicial Reform Packages entered into force in 2011 with the aim of speeding up and carrying out the judicial services swiftly, efficiently and economically and tackling the backlog of cases. On July 2, 2012, the Turkish Parliament adopted new measures, known as the Third Judicial Reform Package, intended to improve the effectiveness of the judiciary. This package, among others, enables further protection of freedom of expression, freedom of press as well as fight against corruption. This Reform Package has made major contributions to increasing the effectiveness and speed of judicial services. Certain data on the implementation of the Third Judicial Reform Package includes the number of people who received probation, which was 104,662 in 2010, 130,402 in 2011, and 197,400 as of December 2012.

Especially the Third and the Fourth Packages were designed to improve human rights and governance and to overcome the problem of long trials, as guided by the European Convention on Human Rights and case-law of the European Court of Human Rights. The Law also introduces the concept of a “judge of liberty” who is assigned to guarantee the personal freedom and security and the right to a fair trial. Instead of the judge who is hearing the case, another judge, known as the “judge of liberty” is assigned to decide on the measures of protection of suspects (such as search and seizure, apprehension, detention, arrest, appeal to arrest) during investigations. This new system has started to produce results to further strengthen the impartiality of the judiciary. The Packages also amended certain provisions in penal legislation including detention orders, administrative judiciary and legislation regarding freedom of expression and freedom of the press as well as fight against corruption. The amendments to the Turkish Criminal Code and the Anti-Terror Law give more room for interpretation in favor of freedom of the press and freedom of expression. In addition, the Packages amended the statute of limitations that existed with respect to offences of torture, by making them inapplicable to such offences.

The Fifth Reform Package contributed to enhancing legislation to ensure the right to a fair trial, personal freedom and protection of privacy and personal data, as well as presumption of innocence. The Sixth Reform Package introduced the regional courts of

appeal in administrative judiciary, which courts are to act as a filter between first instance courts and Council of State. Regional Courts of Appeal may either uphold or quash the decision of the First Instance Courts. The Council of State is the last instance for reviewing judgments rendered by administrative courts. This in turn reduces the length of trials in administrative judiciary while strengthening the Council of State's main role- safeguarding legal uniformity through case-law by reducing its backlog. In the area of human rights, the amendments strengthened the effectiveness of the penalties regarding offences against sexual integrity.

The Law amending the Law on Judges and Prosecutors and Certain Laws and Decree Laws entered into force December 12, 2014. The Law mainly aims to further strengthen independence, impartiality and the effectiveness of the judiciary in line with the provisions of the European Convention on Human Rights and case law of the European Court of Human Rights. The Law on Eradicating Terrorism and Strengthening Societal Integration was enacted to further enhance the on-going solution process and strengthen societal integration. It went into force in July 2014.

The Law amending the Law on Duties and Competencies of the Police and Certain Laws and Decree Laws (known as Reform Package on Internal Security and Protection of Freedoms) was adopted by the Parliament on March 27, 2015. The Law is aimed at striking a necessary balance between freedom and security.

New democratic institutions were established, which created notable improvements in the process of institutionalization of human rights. The Human Rights Institution, for example, is a public legal entity which has administrative and financial autonomy and has its own budget. The Laws regarding the Human Rights Institution of Turkey play a central role in protecting human rights. The Ombudsman Institution aims to improve the quality and effectiveness of public services, by addressing the complaints of citizens regarding public services in a fair and timely manner, free of charge. The establishment of an Ombudsman system is a first in Turkey and one of the most important steps taken to improve accountability, fairness and transparency of the public administration.

Following the Constitutional changes that were adopted by a referendum held in September 2010, the implementation of the individual application system to the Constitutional Court began on September 23, 2012.

With respect to trade union rights, the Parliament adopted two important pieces of legislation to ensure full trade union rights in line with the EU standards. With the amendment to the Law on Public Servants' Trade Unions and Collective Agreement in April 2012, the right of collective agreement was extended to public servants and other public employees. The Law on Collective Labor Agreements entered into force in October 2012.

With the Law on Mediation in Legal Disputes, published in the Official Gazette on June 22, 2012, a mediation system was established through which the parties may freely address disputes arising from private law procedures. With this system, disputes can be resolved through a mediator chosen by the parties.

Significant steps have been taken to enhance the dialogue with different faith groups. The Ministers and Government officials have been continuously holding meetings with the representatives of religious communities to address their problems. Prime Minister Ahmet Davutoğlu met with the religious leaders and representatives of different faith groups twice in the first half of 2015. As a result of this open dialogue, the problems of these citizens in many areas, ranging from education to religious freedoms, were successfully addressed.

Following the request of the Greek community for a Greek Primary School in Gökçeada, permission was given as of March 28, 2013 to open a Greek minority school in Gökçeada. Furthermore, In September 2014, the Ministry of National Education approved the opening of the Private Mor Ephrem Syriac Kindergarten by Beyoğlu Virgin Mary Chaldean Church Foundation in Yeşilköy, İstanbul.

As a result of the 1923 population exchange between Turkey and Greece, ownership of Greek Orthodox Churches and Mosques in Anatolia (with the exception of İstanbul, Gökçeada and Bozcaada) were transferred to the relevant Turkish authorities, as the native population had to leave for Greece. The same applied to Mosques in Greece. The ownership of Greek Orthodox churches/monasteries located in the areas which were subjected to the population exchange of 1923, were transferred to the Turkish authorities in accordance with the Lausanne Peace Treaty due to the absence of local Orthodox communities. In the same vein, mosques in Greece were transferred to relevant Greek authorities. With respect to property rights, an important step was taken to resolve a long-standing issue regarding the immovable properties of minority foundations by the amendment of Law on Foundations in August 2011 and its Implementing By-Law, dated October 1, 2011. These amendments have paved the way for the return of the immovable properties of minority foundations. 116 community foundations have applied to the Directorate General of Foundations and the Foundations Assembly has decided for the return of 333 immovable properties, and has decided to pay compensation for 21 immovable properties.

On February 20, 2008, the Assembly adopted the new Foundations Law (Law No. 5737). This new Law that was published in the Official Gazette No. 26800 on February 27, 2008 allowed foreigners to establish new foundations in Turkey on the principle of reciprocity. Foundations will also be able to establish economic enterprises and companies on the condition that they notify Turkey's foundations authority. The Law also improved the situation of non-Muslim community foundations in relation to their international activities. In addition, on May 13, 2010, the Prime Minister issued a Circular instructing all related Government institutions and offices to act with utmost diligence for the total elimination of problems encountered by non-Muslim minorities, such as those related to publications containing hatred.

An important step was taken to resolve a long-standing issue regarding the immovable properties of minority foundations by an amendment to the Law on Foundations in August 2011 and its implementing By-law dated October 1, 2011. The Foundations Assembly has already decided to return 318,333 immovable properties, and to award compensation for 21 immovable properties.

In addition, as a part of the Democratization Package, the disputed property of Mor Gabriel Monastery was returned to the Monastery Foundation in 2013.

Some churches and monasteries, including Sumela Monastery, Armenian Church of Akdamar on Lake Van and Surp Giragos (an Armenian Orthodox Church at Diyarbakir) that have been closed for years to religious ceremonies were opened. The recent example of reforms is the restoration of the Great Synagogue in Edirne by the General Directorate of Foundations, which opened for worship on March 26, 2015.

Visa Liberalization Dialogue

The launch of the Visa Liberalization Dialogue on December 16, 2013 was an important point in Turkey-EU relations. The Readmission Agreement was signed on the same day. Steps towards ensuring timely completion of the Visa Liberalization Dialogue and effective implementation of the Turkey-EU Readmission Agreement are being taken together with all the relevant Turkish institutions and with the collaboration of the European Commission.

The European Commission has already reported on October 20, 2014 that Turkey has fulfilled 62 out of 72 criteria presented in the Visa Liberalization Roadmap to some extent. The European Commission is expected to publish its second report on the Visa Liberalization Dialogue in November 2015. It is expected to conclude the Visa Liberalization Dialogue and obtain visa-free travel for Turkish citizens within a reasonable timeframe after the start of full implementation (vis-a-vis third country nationals and stateless persons) of the Readmission Agreement in late 2017.

In addition, the Visa Liberalization Dialogue should be evaluated and conducted independently from the rights and acquisitions stemming from the Association Law. In this regard, it is mentioned in the Readmission Agreement that this Agreement shall be without prejudice to the provision of the Ankara Agreement, its additional protocols, the relevant Association Council decisions as well as the relevant case-law of the Court of Justice of the European Union.

Harmonization with the Acquis

It has been half a century since the association relationship was established between Turkey and the EU. The EU has been a driving force for various reforms carried out in the country in the last fifty years. Especially since the establishment of the Customs Union in 1996, Turkey has continued its reform process in every field of the *acquis* and

achieved an advanced level of alignment in most of them. In this regard, in 2014 alone, 24 primary and 154 secondary legislative enactments were made affecting the harmonization process with the EU acquis. Some outstanding steps aiming to align Turkish legislation with the EU acquis are mentioned below.

The 2010-2014 Anti-Corruption Strategy (The Strategy on Enhancing Transparency and Strengthening the Fight against Corruption) and its Action Plan was completed successfully. Turkey is committed to fight against corruption based on the principles of the 2010-2014 Anti-Corruption Strategy. Prime Minister Davutoğlu announced the legislative package on transparency in public life in January 2015. On June 24, 2011, the Financial Action Task Force (“FATF”), an inter-governmental global standard setting body responsible for developing and promoting policies to combat money laundering and terrorist financing (“AML/CFT”), identified Turkey among the jurisdictions that have strategic AML/CFT deficiencies. In 2012, Turkey took steps towards improving its AML/CFT regime (including its work on AML/CFT legislation) as well as Turkey’s high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies. For this purpose, the Law on the Prevention of the Financing of Terrorism and its implementing regulation were adopted in 2013. In addition, MASAK General Communiqué No. 12 entered into force on June 21, 2014 to ensure proper implementation of the mentioned primary legislation. After the new counter-financing of terrorism legislation had come into force, the first Council of Ministers’ decision was rendered on September 30, 2013. This decision, which became effective on October 10, 2013 upon its publication in the Official Gazette, enabled Turkey to update its list of individuals and entities designated by the Sanctions Committees, established pursuant to resolutions 1267 (1999), 1989 (2011) and 1988 (2011), in accordance with those kept by these Committees. As a result of aforementioned improvements, at its Plenary in October 2014, the FATF decided that Turkey had taken sufficient steps in addressing technical compliance with its Core and Key Recommendations, and removed Turkey from the targeted follow-up process. Furthermore, Turkey was also removed from the ICRG process of the FATF which detects and publicly announces high-risk jurisdictions in the same Plenary.

On September 26, 2011, The Council of Ministers approved the Decree-Law on Organization and Duties of Public Oversight, Accounting and Auditing Standards Authority. With the establishment of this Authority, the Turkish Accounting Standards Authority was abolished and as stated by the European Commission, the relevant closing benchmark of the Company Law Chapter 6 was met. The public oversight, namely Accounting and Auditing Standards Authority, has become the sole authority with the power to regulate accounting and auditing standards in Turkey. It has the authority to prepare and publish Turkish Accounting Standards in line with international standards, to ensure uniformity in implementation, necessary reliability and quality of independent auditing, to identify auditing standards, to authorize independent auditors and independent audit companies and supervise their audit activities and to ensure public oversight in the field of independent auditing.

On January 11, 2011, the Assembly approved the new Turkish Code of Obligations (Law No. 6098). Law No. 6098 was published in the Official Gazette No. 27836 of February 4, 2011. The new Law includes, inter alia, several amendments that provide protection to individuals against unilaterally pre-prepared contracts, such as the introduction of a new concept, “General Transaction Conditions,” similar to the “Terms and Conditions” concept commonly used in foreign contracts. Additionally, in the case of any unforeseen, extraordinary events, which with respect to the debtor, leads to changes to the conditions that existed at the time of the execution of a contract, such debtor is entitled to apply to a court for modification of such contract.

In January 2011, the Assembly approved the new Turkish Code of Commerce (Law No. 6102) and it was published in the Official Gazette No. 27846 of February 14, 2011 and entered into force on July 1, 2012. Under the new Turkish Code of Commerce (“TCC”), among other things, companies will be required to prepare financial statements in accordance with International Financial Reporting Standards and the obligations of companies regarding public disclosures and corporate governance principles have been broadened to be in line with global standards. The TCC also allows the establishment of joint stock companies or limited liability companies with a single shareholder or partner. Legal entities could become board members, board meetings can be held in electronic media (with the use of online votes in General Assemblies now being allowed), and board resolutions can also be signed with electronic signatures. Types of mergers, conditions of withdrawal from partnerships, financial assistance to employees, spin-offs and conversions have also been acknowledged in the TCC.

On July 4, 2012, it was announced that a Memorandum of Understanding was signed between the Central Bank of the Republic of Turkey and the European Central Bank, laying the groundwork for continued cooperation in the field of central banking, through regular dialogue at technical and policy level and possible staff exchanges.

The Capital Markets Law (No. 6362) entered into force on December 30, 2012. It includes provisions required for the functioning and development of the capital market in a reliable, transparent, effective, stable, fair and competitive environment. The Law also aims to regulate and supervise the capital markets in order to safeguard the rights of investors.

On April 3, 2013, the Assembly approved a Draft Law (No. 443) Including Changes on Law on Regulating Public Finance and Debt Management (Law No. 4749) and Some Decree Laws, which was published in the Official Gazette on April 18, 2013.

Payment and Securities Settlement Systems, Payment Services and E-Money Institutions Law No. 6493 entered into force on June 27, 2013. The Law was prepared in line with Turkish commitments to the EU alignment process. It regulates the payment and securities settlement systems, payment services, payment service providers and e-money institutions. The Law also aims at promoting financial stability, providing a sound legal basis for the payments area, supporting the developments in the payments area and contributing to the financial inclusion in Turkey.

Turkey signed the Convention on Cybercrime of the Council of Europe on November 10, 2010, which was ratified on April 22, 2014. The convention entered into force on January 1, 2015. This Convention will be useful to better implement limitations on illegal internet content, since it streamlined current regulations and provided a sound framework for the use of internet.

Moreover, implementation of the Southeastern Anatolia Project (“GAP”) for development continues. GAP includes a wide-ranging array of investment products from agriculture to health, education and transportation. The GAP Action Plan Phase I was implemented in 2008-2012. During the first implementation period of the Plan, the share of GAP initiatives in public investments increased from 7% to nearly 14%. More than TL 30 billion (around €12.7 billion) was allocated for investment in GAP Region in the 2008-2012 periods. Within the framework of the GAP Action Plan Phase II (2014-2018), almost €8.9 billion (TL 26.7 billion) is allocated to the region. Moreover, Konya Plain (“KOP”), Eastern Black Sea (“DOKAP”) and Eastern Anatolia (“DAP”) development action plans were adopted and have been implemented by their respective development administrations.

Progress Reports

Since 1998, the European Commission annually publishes its regular Progress Reports on Turkey, as well as the Enlargement Strategy Paper, which evaluate developments in all candidate and potential candidate countries.

The 2010 Progress Report on Turkey and the 2010-2011 Enlargement Strategy were published on November 9, 2010. The report states that Turkey continues to sufficiently fulfill the political criteria. The package of Constitutional amendments approved in a referendum on September 12, which created the conditions for progress in a number of areas, such as the judiciary and fundamental rights and public administration. The report also underlines that economic growth resumed in 2009 and accelerated in 2010, recouping most of the losses incurred during the crisis. Fiscal sustainability was maintained and access to external finance remained unproblematic for both the public and private sectors. Trade and economic integration with the EU remained high and Turkey strengthened its presence in new markets. Privatization and economic reforms advanced, albeit at a slower pace. Unemployment is higher than pre-crisis levels and external imbalances and financing needs increased. Access of SMEs to financing remains difficult. With regard to alignment with the EU acquis, the Progress Report confirms that progress or good progress has been made in 23 out of the 33 Chapters. Contrary to the 2009 Report, the 2010 Report does not identify any chapter where there is “no progress.”

In 2011, the Progress Report on Turkey and the 2011-2012 Enlargement Strategy were published on October 12, 2011. In the report, the European Commission concluded that

Turkey has made progress in meeting EU membership criteria. The Report indicated that Turkey continued to sufficiently fulfill the political criteria. According to the Report, work on implementing the 2010 Constitutional reform package was launched by the Government, free and fair parliamentary elections took place on June 12, 2011, and opened the way for further Constitutional reform. The establishment of a specific Ministry for EU Affairs was regarded as an encouraging signal for Turkey's reform efforts to meet the EU accession criteria. The Report also indicated that the rapid economic expansion continued and the private sector remained the main driving force behind the rapid economic expansion. The report underlined the fact that robust economic development allowed strong employment growth and a sizeable drop in unemployment. In the progress report, it is also stated that Turkey continued to improve its ability to take on the obligations of membership, in particular Chapter 6-Company Law, Chapter 18-Statistics and Chapter 21-Trans-European Networks.

The 2012 Progress Report on Turkey and the 2012-2013 Enlargement Strategy were published on October 10, 2012. The Report welcomed the successful launch of the Positive Agenda in May to support and to complement the accession negotiations through enhanced cooperation in a number of areas of joint interest: political reforms, alignment with the EU law, dialogue on foreign policy, visa liberalization, mobility and migration, trade, energy, counter terrorism and participation in Community programs. In the Report, the Council invites the European Commission to take steps towards visa liberalization as a gradual and long-term perspective, in parallel with the signing of the Readmission Agreement between Turkey and the EU, which was signed in June 2012. It also stressed that Turkey should sign the Readmission Agreement to allow for a proper roadmap to be finalized. The Report welcomes the work on a new Constitution and acknowledges that a democratic and participatory process has been put in place. The Report also notes that representatives of non-Muslim minorities were officially received by Parliament. In the Report, terrorist attacks by the PKK (a terrorist organization in Northern Iraq) were strongly condemned by the EU, yet it is stated that the Kurdish issue remains a key challenge for Turkey's democracy. Moreover, the Report stressed that several important pieces of legislation were adopted, in particular, laws on the protection of family and prevention of violence against women, probation, collective bargaining for civil servants, the Ombudsman Institution and the national human rights institution.

Turkey's 2013 Progress Report and the Enlargement Strategy Document were published by the European Commission on October 16, 2013. The Report comprehensively described the political reforms undertaken in Turkey during the previous year. The report also emphasized the Turkish Government's determination regarding the continuation of democratization and political reforms and, in this context, referred to the Democratization Package published on September 30, 2013, as well as to the steps taken with regards to the judiciary reform and ongoing work on the new Constitution. The Report stated that the process in Turkey that aims to end armed terrorist attacks and the activities of the PKK constitutes a milestone and continues to generate the support of the EU. The Report also referred to Turkey's active role in foreign policy.

The 2014 Progress Report on Turkey and the 2014-2015 Enlargement Strategy were published on October 8, 2014. The Report specifically references Turkey's positive actions implementing legislation within the Democratization Package framework and praises Turkey's constructive approach outlined in the Solution Process. The report indicated that the adoption by Turkey of "The Action Plan on Prevention of ECHR Violations" was a critical step in the democratization process. The humanitarian assistance provided by Turkey to 1.5 million Syrians fleeing violence across the border was also praised in the Report. The Report also indicated that the growth of the economy since 2011 affirms the strength and resilience of the economy against the global economic shocks. With regard to alignment with the EU acquis, the Progress Report confirmed that progress has been made at various levels in 30 of the 33 negotiation chapters. The Progress Report also indicated that Turkey has reached advanced level of alignment in 26 of these chapters.

Economic Criteria

In accordance with the National Program and in response to Turkey's serious economic crisis in 2001, numerous economic reform measures have been adopted. Turkey has restructured its financial sector, ensuring transparency in public finance and enhanced competitiveness and efficiency in the economy. Such structural reforms have yielded positive and tangible results. As a result of the banking sector restructuring following the 2001 crisis, Turkey's financial system has had fewer difficulties emerging from the current global economic crisis. Turkey did, however, feel the negative effects of the global economic crisis resulting in shrinking exports, declining industrial production and downward pressure on growth. Nevertheless, thanks to the decisive implementation of the reforms, Turkey's economy was more resilient in the face of the negative effects of the 2008 global economic crisis than it had been in the 2001 crisis. The reforms gave Turkey the opportunity to implement measures to minimize the adverse effects of the global economic crisis on domestic growth, to continue the disinflation process and to protect fiscal gains.

The European Commission has considered Turkey a functioning market economy in all its annual Progress Reports since 1998. As stated above, the recent Progress Reports have highlighted the robust financial sector of the country and resilience of the Turkish economy, with a special emphasis on its sustained growth rate despite the difficult international economic environment, in particular, the successful implementation of the economic stability program and the structural reforms carried out in many sectors.

In March 2015, Turkey submitted its Economic Reform Program ("ERP") for the 2015-2017 period, which replaced the Pre-Accession Economic Program ("PEP"). The ERP was prepared on the basis of the 2015-2017 Medium Term Program.

The Turkish economy grew by 8.5% in 2011, 2.1% in 2012, and 4.2% in 2013 and 2.9 in 2014. According to the ERP for the 2015-2017 period, Turkey's economy is expected to have growth rates of 4% in 2015 and 5% in 2016, and 2017. The year-end consumer price

inflation rate was 10.45% in 2011, 6.2% in 2012, 7.4% in 2013, and 8.2% in 2014. Inflation target was set as 5% both for 2015 and 2016. Turkey's unemployment rates were recorded as 8.4% in 2012, 9% in 2013, and 9.9% in 2014. Unemployment rate is expected to decrease to 9.5% in 2015, 9.2% in 2016 and 9.1 in 2017. Current Account deficit/GDP ratio figures were 10% in 2011, 6.2% in 2012, and 7.9% in 2013. ERP forecasts the Current Account deficit/GDP ratio as 5.4%, 5.4% and 5.2% in 2015, 2016 and 2017, respectively.

Customs Union

On the other hand, it is worth to underline the recent developments between Turkey and the EU vis-à-vis Customs Union. For Turkey, Customs Union was considered as a stepping stone and the reason for entering into such an asymmetric structure was the expectation of EU membership within a foreseeable period of time. As that foreseeable period has yet to arrive, and the systemic problems continue to exist, Turkey agreed with the EU that Customs Union requires an update. In this respect a common understanding has been reached between the parties. The update package will include solutions to the systemic problems Turkey faces and also the extension of the Customs Union to new areas, like services and public procurement.

One of the most important systematic problems of the Customs Union is the difficulty for Turkey to conclude free trade agreements ("FTAs") similar to the ones EU concludes with third countries. Taking into account the Transatlantic Trade and Investment Partnership ("TTIP"), negotiations between the EU and the United States, and an important reflection and an integral part of this update process needs to be inclusion of Turkey to TTIP.

Financial Assistance

Following the expiration of 2007 to 2013 IPA term's legal framework ("IPA I"), the European Commission and Turkey established priorities for financial assistance under the new Instrument for Pre-accession Assistance ("IPA II"), set out in the Indicative Strategy Paper for Turkey for the period 2014-2020. This key document was presented to the Commission's IPA committee in July 2014 and adopted on August 26, 2014. The IPA II Framework Agreement, transferring the implementation principles into internal legislation was signed by both parties on February 11, 2015. The Law No. 6647 regarding approval of the Framework Agreement by the Turkish Grand National Assembly was published in the Official Gazette on April 28, 2015. Council of Ministers' decision approving the Agreement was published in the Official Gazette No. 29393 on June 21, 2015. The Agreement will enter into force right after the procedure of the exchange of "nota verbale" between Turkey and the EU. In IPA II, reforms relating to the rule of law and fundamental rights, home affairs, and civil society are to receive increased funding compared to IPA I. Other priorities include education, employment and social policies. In the sectors of environment, transport, and energy, the IPA II will focus on promoting development towards a resource efficient, low carbon economy and on increasing inter-connectivity between Turkey and the EU. In the areas of agriculture and

rural development, work will focus on food safety, veterinary and phytosanitary policy, agriculture, fisheries and rural development. These priorities will be used as the basis for sector programs promoting structural reforms, allowing more targeted assistance and improving the impact of financial assistance.

EU Process at the Local Level

According to the Ministry of Interior Circular No. 2010/6 of January 26, 2010 EU Harmonization, Consultancy and Steering Committees were established within 81 province governorship offices and within each of the 81 province governorships, one Deputy Governor has been appointed as the EU Focal Point.

Meanwhile the Ministry for EU Affairs started a project called “Improving the Effectiveness of Governorates in the EU Accession Process.” The fifth year of the project is continuing as of 2015. The project, which is being implemented in cooperation with the Ministry of Interior, contributes to the following objectives at the local level:

- To adhere to the responsibilities brought by the EU accession process and to implement the regulations adopted within this context;
- To obviate the misperceptions, prejudices and groundless fears in the public regarding the EU membership process;
- To use the EU financial assistance more effectively; and
- To spread the experience acquired through adoption of the EU acquis to the local regions, thereby disseminating the EU enthusiasm to the periphery.

The “Action Plan for Strengthening Capacity for EU Affairs at the Local Level” was prepared and released to the public on December 23, 2014. The Action Plan is a roadmap that will provide a more systematic and sustainable base for EU related activities carried out by the Ministry for EU Affairs and other relevant public institutions at the local level. It will also pave the way for a more effective performance of the work at the local level envisaged in Turkey’s New European Union Strategy and the new Communication Strategy, and for institutional capacity building required in this framework.

In the new implementation period of the IPA (2014-2020), the European Commission and Government of Turkey agreed that Civil Society would make up a specific sub-sector, under the overall sector of “Governance and Democracy.” About 190 million Euro will be allocated to this sub-sector. The programming of the IPA-II civil society sub-sector has been underway with the participation of all relevant parties.

The objectives under the Civil Society sub-sector are to support the development of civil society through more active democratic participation in policy and decision making processes; promote a culture of fundamental rights and dialogue; enhance civil society dialogue and inter-cultural exchange between civil societies in Turkey and Europe.

UNITED STATES

Turkey and the United States have been close allies and partners for more than sixty years. During the Cold War, the security aspect of the relationship became more pronounced, particularly following the Truman Doctrine and Turkey's membership in NATO. In the ensuing post-Cold War era, relations between Turkey and the United States have been diversified and further enhanced in the pursuit of common interests based on shared values such as democracy, the rule of law, respect for human rights and development and growth of a market economy, as well as the desire to promote peace, stability and prosperity around the globe. Turkey-US relations have been defined as a "Model Partnership" by President Obama who paid his first overseas visit to Turkey in 2009, after being elected to his first term in office. This term reflects the distinct character and comprehensive nature of Turkey-US relations. It defines the relationship between a global power on the one hand and a regional power on the other, which also has the capacity to contribute positively to global affairs.

Turkey and the United States together face a host of international challenges of major significance. Turkey-US cooperation continues to make substantial contributions to efforts aimed at achieving global and regional peace, stability and prosperity. The United States is Turkey's main military export-import partner. While defense ties form the bedrock of the relationship between two countries, there have also been significant improvements in bilateral trade and economic relations.

Recent developments in the Middle East and North Africa once again highlighted the relevance of Turkish-US cooperation. Turkey and the United States have been consulting frequently to exchange views on many issues of common concern. Today, Turkey and the United States cooperate on a wide range of issues affecting the Middle East, North Africa, the Balkans, the Caucasus, the Eastern Mediterranean, Central and South Asia, as well as on critically important issues, such as the fight against terrorism, energy supply security, nuclear non-proliferation and global economic developments.

Bilateral high level visits gained momentum during the last couple of years. Former President Gül visited the United States to attend the NATO Chicago Summit in May 2012. Former Secretary of State Clinton paid a visit to Turkey in June 2012 within the framework of the 2nd Coordination Committee meeting of the Global Counter Terrorism Forum. She also paid a working visit to Turkey on August 11, 2012. These high level visits proved to be important steps in highlighting the relevance of Turkey-US relations against the backdrop of significant developments surrounding Turkey's region.

The visit of former Prime Minister, now President Erdoğan to Washington, D.C. in May 2013, has been of great significance as it brought about a fresh impetus to Turkey-US

relations. This visit reaffirmed that Turkey and the United States share a common set of foreign policy priorities and that they have the common will to strengthen their cooperation with a view to addressing the challenges of the 21st century.

Other high level visits and regular contacts between Turkey and the United States during the course of 2013 included the visits of Secretary of State Kerry, former Foreign Minister, now Prime Minister, Davutoğlu and other Ministers as well as visits of Congressional delegations.

Frequent high-level visits and contacts between Turkey and the United States also took place in 2014. On the margins of the NATO Wales Summit and the UN General Assembly in 2014, President Erdoğan met with United States President Obama and United States Vice President Biden, respectively. Prime Minister Davutoğlu also met with Secretary of State Kerry on the margins of the NATO Wales Summit, in September 2014. In the last quarter of 2014, Turkey hosted a number of Senior Administrative Officials from the United States. In this period, Vice President Biden, Secretary of State Kerry, Secretary of Commerce Pritzker and Secretary of Defense Hagel visited Turkey.

United States Secretary of Commerce Pritzker's visit with the President's Export Council ("PEC"), the PEC's first trip to Turkey, was an important occasion to discuss more business and investment opportunities between the two countries.

The United States is one of the major trade partners of Turkey. The bilateral trade volume between Turkey and the United States was approximately U.S.\$19 billion in 2014. Turkish exports to the United States reached U.S.\$6.3 billion, mainly composed of iron and steel, road transportation vehicles and textile fiber and its products. Total import volume was U.S.\$12.7 billion. Iron ore and metal scraps, textile fiber and other transportation vehicles are the major import items of Turkey from the United States.

In the last decade (2004-2014), U.S. companies have invested U.S.\$9.09 billion in Turkey. Currently, the United States ranks third in FDI flows into Turkey behind the Netherlands and Austria. US investments surpassed U.S.\$325 million in 2014.

Turkey is also designated by the United States as one of the 6 preferential markets (Colombia, Indonesia, Vietnam, Saudi Arabia, South Africa and Turkey) in the world.

On June 11, 2012, the United States issued a waiver to Turkey from its Iran-related sanctions, effective as of June 28, 2012, for a period of six months. The U.S. State Department stated that Turkey, among other countries, had sufficiently reduced its purchases of Iranian oil to be awarded the waiver. This waiver was last extended until June 30, 2015.

The mechanism called Framework for Strategic Economic and Commercial Cooperation ("FSECC") was launched in 2009 with a view to bringing economic, trade and investment relations to a level proportionate to political and security relations

between the two countries. Deputy Prime Minister Ali Babacan and Economy Minister Zafer Çağlayan were entrusted with the mandate to coordinate bilateral endeavors for enhancing the economic interaction and commercial ties between Turkey and the United States. The first Ministerial meeting of FSECC was held in Washington, D.C. on October 19, 2010. The second and third meetings of FSECC were held in Ankara on June 26, 2012 and in Washington, D.C. on May 14, 2014, respectively. Deputy Prime Minister Ali Babacan and Minister of Economy Nihat Zeybekci (representing Turkey) and U.S. Secretary of Commerce Penny Pritzker and U.S. Trade Representative Ambassador Michael Froman (representing the United States) co-chaired the last meeting.

The Transatlantic Trade and Investment Partnership Agreement (“TTIP”) process between the United States and EU and how Turkey fits into this process is critically important for Turkey both economically and politically. A High Level Committee (“HLC”) was established with the aim to analyze the potential impact of the TTIP process with regard to Turkey’s Customs Union with the EU. The HLC is expected to pave the way to groundwork for the launch of the Free Trade Agreement negotiations between Turkey and the United States. Its first meeting was held on September 17, 2013 in Washington D.C. and its second meeting was held on the margins of the FSECC meeting in Washington D.C. on May 14, 2014.

The Economic Partnership Commission (“EPC”), one of the major mechanisms in Turkey-US economic cooperation, is being held twice a year as of 2011. EPC held its ninth meeting in Washington D.C. on November 28, 2012, and its tenth meeting on May 23, 2013 in Ankara. The ninth and the most recent meeting of the Trade and Investment Framework Agreement Council (“TIFA”) was organized in Washington D.C. occurring on February 21-22, 2013. The “Business Council” (BC), established under the auspices of the FSECC, held its first meeting in Istanbul on September 19, 2011, its second meeting in Washington, D.C. on June 3, 2013 and its most recent meeting on July 24, 2014 in Istanbul.

Turkish Airlines operates between Istanbul and seven American metropolitan areas (New York, Washington D.C., Chicago, Los Angeles, Houston, Boston and San Francisco), which reinforces the connection and expands cooperation among business circles. Direct flights to Miami and Atlanta are expected to start in the near future.

The Agreement on Scientific and Technological Cooperation between Turkey and the United States was signed in Washington, D.C. on October 20, 2010.

BALKANS

Turkey’s policy towards the Balkans is guided by the principles of “regional ownership” and “all-inclusiveness” and is based on four main pillars: security for all, high level political dialogue, economic interdependence and preservation of the multi-ethnic, multi-cultural

and multi-religious social fabric of the region. In addition to having a common history and shared values, the Republic has a joint vision with the Balkan countries based on common goals and integration with European and Euro-Atlantic institutions.

Apart from political support, Turkey also provides assistance to the countries of the region in various areas including economy, culture, education, military and security through its relevant public institutions, municipalities, NGO's and universities.

Turkey has played a leading role in launching major initiatives such as the South-Eastern European Cooperation Process ("SEEC"), the only major initiative starting from within the region, and the Multinational Peace Force Southeast Europe ("MPFSEE")/South-eastern Europe Brigade ("SEEBRIG"). Turkey also plays an active role in the South-eastern Europe Defense Ministerial (SEDM) process. Turkey continues to be active within the Southeast European Law Enforcement Center (SELEC) as well.

Turkey intensified its efforts towards the Balkans beginning from the second half of 2009. In addition to successfully holding the Chairmanship in the Office of the SEEC for the term 2009-2010, Turkey established trilateral consultation mechanisms with Bosnia-Herzegovina and Serbia on the one hand, and Bosnia-Herzegovina and Croatia on the other. These cooperation mechanisms aim to enhance peace, stability and prosperity in Bosnia and Herzegovina and transform the Balkans to a more stable region.

On April 24, 2010, the first "Trilateral Balkan Summit" was held in Istanbul with the participation of the Heads of State of Turkey, Bosnia and Herzegovina and Serbia. The second meeting of the "Trilateral Balkan Summit" was held in Karadjordjevo, Serbia on April 26, 2011. The third "Trilateral Balkan Summit" was held in Ankara on May 14 and 15, 2013. At the summit, "Ankara Summit Declaration" was adopted and the Ministers of Economy of Turkey, Bosnia-Herzegovina and Serbia met on May 14, 2013 and established "Trilateral Trade Committee".

The Trilateral Summits bring the parties together to engage in joint projects intended to strengthen the dialogue and contribute to the regional peace, stability and cooperation.

During 2014, several high level visits took place, including the visits of Borut Pahor, President of Slovenia, Bakir Izetbegović, Member of the Presidency of Bosnia and Herzegovina, Nikola Gruevski, Prime Minister of Macedonia to Turkey and, Prime Minister Davutoğlu's visit to Macedonia. With these visits, Turkey's economic and trade relations with the countries of this region have displayed a significant increase and the overall trade volume exceeded U.S.\$21 billion as of the end of 2014.

GREECE

Following the dialogue and cooperation process initiated between Turkey and Greece in 1999, a more constructive understanding has begun to define the terms of bilateral

relations which were problematic in past decades. The conclusion of 35 bilateral agreements/protocols/MoUs in various fields such as trade, tourism, environment, culture, energy, transportation and security-related matters has contributed towards cooperation on issues of common interest. During this process, 29 Confidence Building Measures (“CBM”) were adopted. Since 2009, Turkey and Greece have furthered their efforts in order to improve bilateral relations.

During then Prime Minister Erdoğan’s Athens visit on May 14-15, 2010, the High Level Cooperation Council (“HLCC”) held its first meeting and 22 documents were concluded in various fields. The second HLCC meeting was held in İstanbul on March 3-4, 2013, during which 25 documents were signed. The third meeting of HLCC was held in Athens on December 6, 2014 on the occasion of Prime Minister Ahmet Davutoğlu’s visit to Greece and a Joint Declaration was signed in this context. Implementation of the documents signed in the first two HLCC meetings and further enhancement of the cooperation between the two countries were the focus of the third HLCC meeting. In total 48 documents were signed at the HLCC meetings between Turkey and Greece.

The establishment of this mechanism signals the beginning of a more structured and institutionalized phase in Turkish-Greek relations, which will enable Turkey and Greece to upgrade the level of relations from rapprochement to partnership. The HLCC model in essence aims to bring together all relevant Ministers from both countries in the form of a joint cabinet meeting in order to raise their issues and develop a joint vision under the guidance of the two Prime Ministers.

The Greek Deputy Prime Minister and Foreign Minister Venizelos visited Turkey on November 28-30, 2014. Foreign Minister Çavuşoğlu attended the 31st Meeting of the Council of Ministers of Foreign Affairs of the Organization of the Black Sea Economic Cooperation (“BSEC”) held in Thessaloniki on December 12, 2014 and paid a private visit to Komotini on the same day.

In the meantime, established mechanisms work smoothly. By the end of 2014, 58 rounds of Exploratory Talks were held. Political consultations were held in June and November of 2014.

The mutual desire to bridge differences through dialogue and promote cooperation in the better interest of both countries has also reflected positively on other dimensions of bilateral relations, such as trade and tourism. The bilateral trade volume between Turkey and Greece had reached U.S.\$3.57 billion in 2008. Although the trade volume fell to U.S.\$2.76 billion in 2009 due to the impact of the global economic crisis, it displayed an upward trend in 2010 and amounted to U.S.\$3 billion. Despite the deepening economic crisis in Greece, the trade volume has exceeded U.S.\$4.0 billion in 2011. The bilateral trade volume has reached U.S.\$4.9 billion in 2012. In 2013, it reached a record level of U.S.\$5.7 billion, with a surplus of U.S.\$2.7 billion in Greece’s favor. Bilateral trade volume was about U.S.\$5.6 billion in 2014. Following the establishment of the HLCC

mechanism, bilateral trade volume doubled between the two countries and Turkey has become the number one trade partner of Greece in 2013. Both sides are working tirelessly to meet the U.S.\$10 billion target set by the Prime Ministers at the second HLCC meeting in May 2013 in İstanbul.

As the largest Turkish investment in Greece, the Athens and Komotini branches of Turkish Ziraat Bank were officially inaugurated in February 2009. The Bank opened also branches in Xanthi and Rhodes in October 2010 and October 2011, respectively. Turkish companies were mostly interested in investing in the tourism sector in Greece. The amount of Greek foreign direct investment in Turkey, with the banking sector taking the lead, soared to approximately U.S.\$6.7 billion by the end of 2014, while the total of Turkish companies' investments in Greece was about U.S.\$ 500 million. In 2013, Turkey was the destination of choice for more than 800,000 Greek tourists. According to the Greek National Statistics Agency, Turkish tourists visiting Greece in 2014 reached 1,000,000. These figures mark the continuing upward trend in tourism. As a result of the benevolent climate between the two countries, increasing numbers of Greek pilots and academics are now working in Turkey. A number of Greek citizens have started their own businesses in Turkey. There are opportunities to enhance this cooperation in the health sector as well.

Energy has also proven to be a promising area of cooperation between the two countries. For example, the inauguration of the natural gas interconnector was held on November 18, 2007 at Ipsala on the Turkish-Greek border with the participation of the Prime Ministers of Turkey and Greece. This endeavor is of strategic significance for both countries as well as European markets, as it will provide the latter with an alternate secure energy transit route. The uninterrupted flow of natural gas from the Caspian Basin to the heart of Europe will be ensured with the extension of the present pipeline to Italy. The Baku-Tbilisi-Erzurum ("BTE") Natural Gas Pipeline connection with the Turkey-Greece Interconnector is the very first alternate route to provide Europe with natural gas from the Caspian Basin.

The Southern Gas Corridor projects are key activities for the future delivery of natural gas primarily from Azerbaijan and Turkmenistan. Turkey and Azerbaijan reached an agreement concerning the sale and purchase of 6 bcm and the transit through Turkey to European markets of 10 bcm of Shah Deniz Phase 2 natural gas. The Intergovernmental Agreement and Host Government Agreement regarding development of the standalone pipeline, the Trans Anatolian Pipeline ("TANAP") project, were signed by Turkey and Azerbaijan on June 26, 2012 in Istanbul. Constituting the backbone of the Southern Gas Corridor, TANAP will not be restricted to Shah Deniz gas and also aims to transport gas to be produced in other Azeri fields and from Turkmenistan. At the end of June 2013, the Shah Deniz Consortium opted for the Trans-Adriatic Pipeline ("TAP") project, as the continuation of TANAP.

The Shah Deniz Consortium also announced that they have made the final investment decision for the Shah Deniz Phase 2 and an official signing ceremony was held on December 17, 2013 in Baku for the final investment decision.

The 20th anniversary of the “Contract of the Century” and the Southern Gas Corridor ground-breaking ceremony took place on September 20, 2014 at Sangachal Terminal in Baku.

As agreed by the Turkish and Greek Foreign Ministers during their meeting in New York in September 2013, the cross-visits of the Turkish Cypriot Negotiator Mr. Kudret Özersay and Greek Cypriot Negotiator Mr. Andreas Mavroyiannis to Athens and Ankara, respectively, took place on February 27, 2014, following the resumption of the comprehensive settlement negotiations on February 11, 2014. These visits were important to manifest the support and commitment of Turkey and Greece.

Turkey hopes that this trend in bilateral relations will continue in the period ahead, with a partnership spirit resulting in a climate of habitual cooperation beneficial to both countries. With this understanding, Turkey is determined to develop new joint projects for the welfare of both nations by using the opportunities that our common geography gives us.

CYPRUS

Turkey supports the UN Secretary General’s good offices mission, with a view to finding a just and lasting comprehensive settlement to the Cyprus problem, based on the long established UN parameters such as bi-zonality, political equality, equal status of the two constituent states and a settlement which will bring about a new partnership state. Turkey has openly declared its full support for a political settlement in the Island.

Cyprus is the home of two politically equal parties: Turkish Cypriots and Greek Cypriots who are two distinct peoples with different religions, cultures and ethnicities. The bitter past of ethnic conflict in Cyprus dictates that lasting peace can only be achieved through a viable equal partnership.

In 1963 the Greek Cypriots expelled Turkish Cypriots from the partnership state organs and institutions as well as from their homes, in violation of the Treaties of 1960. A UN peacekeeping operation began in 1964 and has been going on since then.

From 1963 to 1974 the Turkish Cypriots continued their existence in isolated enclaves corresponding to 3% of the Island, under frequent attacks organized by the Greek Cypriot side. When this culminated with a coup d’état in 1974, which was aimed at annexing the Cyprus island with Greece, Turkey as a guarantor power was left with no other option but to exercise its Treaty rights.

In the past forty-seven years of the UN negotiation process, the Turkish Cypriots have always supported a just, lasting and comprehensive settlement of the Cyprus issue on the basis of negotiations between the two peoples of the Island, under the auspices of the UN Secretary-General's Good Offices mission. However, the Greek Cypriots rejected the 1985-86 Draft Framework Agreement, the UN sponsored Set of Ideas of 1992, and the package of Confidence Building Measures of 1994.

The political resolve demonstrated by the Turkish side for a settlement paved the way for a renewed initiative by the former UN Secretary General Mr. Kofi Annan in January 2004 for the resumption of negotiations between the parties on the Island with a view to reaching a comprehensive settlement in this long pending issue.

The UN Comprehensive Settlement Plan (the Annan Plan), which was freely negotiated at every stage by the two sides, constituted a culmination of the UN parameters and represented a carefully balanced compromise.

The Annan Plan was submitted to simultaneous separate referenda in the North and South of Cyprus on April 24, 2004. Turkish Cypriots accepted the Annan Plan with the encouragement of Turkey. However, the Greek Cypriots rejected the Plan with a 'No' vote of 76%.

Turkey as a guarantor power has given its full support to the constructive efforts of the Turkish Cypriots in the UN negotiating process for the establishment of a new partnership in Cyprus that will emerge following the comprehensive settlement which will bring peace and stability to the Eastern Mediterranean. The parameters of a settlement have been established throughout decades-long UN negotiations and culminated in the UN Comprehensive Settlement Plan of 2004. These negotiations have provided the necessary material for the achievement of the settlement on which a new state of affairs can be created in Cyprus and guaranteed according to the 1960 Treaties.

On April 18, 2010, Mr. Derviş Eroğlu was elected as the president of the Turkish Republic of Northern Cyprus (the "TRNC"). President Eroğlu committed to continue the negotiations being conducted by President Talat and Mr. Christofias where they had been left off. President Eroğlu confirmed his stance in his letter to the UN Secretary General ("UNSG") on April 23, 2010, clarifying once more and in detail that the Turkish Cypriots were in full cooperation with the UN.

The negotiations resumed on May 26, 2010, between the Turkish Cypriots and Greek Cypriots. During the process, the two leaders and the UNSG came together in tripartite meetings on November 18, 2010 in New York, on January 26, 2011 and July 7, 2011 in Geneva, and on October 30-31, 2011 and January 23-24, 2012 in Greentree, New York. During these meetings and going forward, the Turkish Cypriot side maintained their constructive and result-oriented approach.

The international community had high expectations from the tripartite meeting held on January 23-24, 2012 in Greentree. The Turkish side had been hoping that the second Greentree meeting would usher in the high-level meeting with the participation of the two sides and the three guarantors, which would address all remaining issues that couldn't be agreed upon by the two sides in order to seal the settlement through a grand bargain. Regrettably, this was not achieved at the meeting, despite the sincere efforts of the Turkish Cypriot side and a very important opportunity was missed.

Throughout the period following the second Greentree meeting, the Turkish Cypriot side continued its determined and constructive efforts for the success of the UN process in the coming months, with Turkey's full support. However, no progress was achieved. The UNSG informed the two leaders on April 21, 2012 that he did not consider the current conditions as being appropriate for convening a high-level meeting. This was especially disappointing for the Turkish Cypriot side, which spared no effort so that this opportunity would not be wasted.

After the Greek Cypriot elections in February 2013, it took almost a year for the new Greek Cypriot leader, Mr. Anastasiades, to sit at the negotiation table. As stated above, back in 2012, the process was halted when the high-level multilateral meeting with the participation of guarantors and subsequently the referenda were about to be held.

A joint statement exercise was actually launched in September 2013 since the Greek Cypriot side did not clarify its position on the convergences achieved in the 2008-2012 process. President Eroğlu had, however, confirmed several times his commitment to the agreed convergences and to all their positions so far tabled in the negotiations.

Almost a year after the election of Mr. Anastasiades and months-long effort to finalize the joint statement to be issued, the two leaders in Cyprus finally met on February 11, 2014 to resume the comprehensive settlement negotiations under the auspices of the UN.

Following the resumption of the comprehensive settlement negotiations, the cross-visits of the Turkish Cypriot Negotiator Mr. Kudret Özersay and Greek Cypriot Negotiator Mr. Andreas Mavroyiannis to Athens and Ankara, respectively, took place on February 27, 2014. These visits were important to manifest the support and commitment of Turkey and Greece as motherlands.

Since the resumption of the negotiations, Turkish Cypriot side had been making great effort to secure the existing convergences and to build upon them. Despite the leaders' joint statement of February 11th that referred to "structured" negotiations to be carried out in a "results-oriented" manner, focusing on unresolved core issues, the Greek Cypriot side first came with new proposals in a selective manner, disregarding the convergences and tried to encourage the Turkish Cypriots to do the same. This was pushing them into a futile, time-consuming exercise, which meant losing the whole acquis of this process and returning back to 2008.

In their meeting on July 24, 2014, the leaders agreed that both sides had completed the submission of proposals on all issues.

Following the summer break, the leaders met again on September 17 so a basic agreement could be reached to move to the next phase of structured negotiations. The expectation was that the talks would proceed in a results-oriented manner and that following the referenda at the earliest opportunity, a lasting settlement would be achieved.

Instead of concentrating on the negotiation process at this critical juncture, the Greek Cypriot side started a new drilling activity on September 25, 2014 in the so-called license areas, which overlaps with those of the Turkish Cypriots. This was their second drilling after their first attempt in 2011. Despite Turkey's and the TRNC's warnings, on September 15, 2011, the Greek Cypriot side began its first offshore drilling activities on September 19, 2011. A continental shelf delimitation agreement was then signed on September 21, 2011 by Prime Minister Erdoğan and TRNC President Eroğlu in the margins of the 66th United Nations General Assembly in New York. Turkey and the Turkish Cypriots view this as a necessary reaction to the Greek Cypriot provocation, although they are in principle opposed to such undertakings before a comprehensive solution. The Greek Cypriots did not accept Mr. Eroğlu's constructive proposal for a fair sharing of these natural resources put forth on September 24, 2011 or on September 29, 2012. In the absence of cooperation from the Greek Cypriot side, the Government of the TRNC then designated its own license areas around the Island and issued licenses for exploration and exploitation of oil and gas reserves on these areas to the Turkish Petroleum Corporation (TPAO). In the aftermath of the second drilling of the Greek Cypriots in June 2013, they urged once again the Greek Cypriots not to undermine negotiations as well as the rights of the Turkish Cypriots. The Turkish Cypriots made their decision clear to send a seismic research ship and a drilling platform to the area, if the Greek Cypriots did not stop their unilateral activities.

In response to the unilateral activities of the Greek Cypriot side, TRNC also started to conduct seismic research activity in its own license area, which does not overlap with the Greek Cypriots' drilling activity area.

The NAVTEX message for the seismic research being conducted by the Barbaros Hayrettin Paşa ("BHP") ship was issued by Turkey as TRNC is unable to issue any NAVTEX due to the embargos applied by the Greek Cypriots. It should be stressed that Turkey has no claim in the maritime areas in the south of Cyprus, including the area where the Greek Cypriots started drilling activities.

In response to the Turkish Cypriots' counter-measure, the Greek Cypriot stepped away from the UN negotiations table on October 7th.

The start of offshore drilling activities by the Greek Cypriot side in the Eastern Mediterranean was untimely and had a negative impact in terms of the settlement

process. The Turkish Cypriots have equal and inherent rights over the resources of the whole continental shelf of the Island, which is accepted by the international community, and even the Greek Cypriots do not deny this. The two peoples of the Island should jointly decide on how to use the off-shore natural gas and oil resources. The Turkish Cypriots fair sharing proposals of September 24, 2011 and September 29, 2012 are still valid. As set forth with this proposal, Turkish and Greek Cypriots should determine jointly the future course of off-shore oil/gas activities, including revenue sharing.

Turkey considers the natural resources discovered around the Island as an additional encouraging element for a settlement. Reaching a comprehensive settlement in Cyprus will create a positive atmosphere for enhanced cooperation in the Eastern Mediterranean. The settlement will lead to an environment conducive to boosting the economic relations between the two peoples of the Island, Turkey and Greece. Over the last 10 years, the economic gap between the Turkish Cypriots and Greek Cypriots has narrowed considerably. This could eliminate another discouraging factor for the Greek Cypriots compared to the referendum back in 2004.

Water is another area for potential cooperation. Turkey and TRNC are about to complete a pipeline project, which will bring 75 million cubic meters of water from Turkey to Northern Cyprus. This amount can be increased tenfold in the future that would be equal to the double of the water requirement of the entire Island.

Following the Greek Cypriot side's drilling activities coming to an end at the end of March, Turkish Cypriot side decided to withdraw the ship conducting seismic research from the region. The Turkish Cypriot Presidential elections were held in April 2015 and Mustafa Akıncı was elected as the President of the TRNC. Following the completion of the elections on the Turkish Cypriot side, the comprehensive settlement negotiations resumed on May 15, 2015.

The Turkish Cypriots accepted the UN Comprehensive Settlement Plan in 2004. In that regard, Turkey believes that the UN Security Council should heed the call made by the UNSG in his Report of May 28, 2004, towards putting an end to the isolation of the Turkish Cypriots. In his report, the UNSG noted that there is no Security Council resolution which imposes restrictions on the Turkish Cypriots and also called on members of the Security Council to encourage all Member States to eliminate unnecessary restrictions and barriers that isolate the Turkish Cypriots and impede their development. While the European Council decided on April 26, 2004, to end the isolation of the Turkish Cypriots with no conditions, this decision has not yet been implemented. This situation is discouraging, particularly with respect to the ongoing UN negotiations. In line with the UNSG's call, Turkey hopes that the international community will call for the isolation to end, thus also contributing to the settlement aim.

IRAQ

Iraq's recent history is full of wars, military invasions and sanctions which have had regional and global repercussions. The continuing violence and civil unrest in Iraq has negatively impacted its neighboring countries, including Turkey, which 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.

Turkey has strongly supported Iraq's stability, political unity and territorial integrity and made great efforts in helping Iraq to become a democratic, stable and prosperous country at peace with its own people and its neighbors. Turkey also attaches utmost importance to embracing all segments of the Iraqi society and reaching out to every part of Iraq. To this end, Turkey launched in 2003 "Iraq's Neighboring Countries Process", a regional initiative that played an important role in coordinating stabilization efforts of Iraq's neighbors as well as various other countries and international organizations until 2008.

Turkey has also actively supported national reconciliation efforts in Iraq. Through reaching out to all segments of the Iraqi society and preserving its impartial stance towards all Iraqi political groups, Turkey encouraged national reconciliation through dialogue and contributed to the successful conclusion of the government formation processes after the general elections in March 2010 and April 2014.

Turkey also works towards integrating Iraq into the global economy and international energy markets. With this understanding, Turkey co-sponsored the UN Security Council resolutions 1956, 1957 and 1958 concerning the termination of UN-supervised arrangements for the Development Fund for Iraq and the residual activities of the Oil-for-Food Program as well as the lifting sanctions towards Iraq which were adopted at the Security Council High-Level Event on December 15, 2010.

Turkey's relations with Iraq have been steadily developing in many fields. The Turkey-Iraq High Level Strategic Cooperation Council, established in 2008, provides the necessary legal framework to further increase bilateral cooperation between the two countries in a more structured fashion. The purpose of this High Level Strategic Cooperation Council ("HLSCC") is to achieve full economic integration between the two countries through joint projects in areas such as trade, energy, agriculture, security, health and water.

The first ministerial meeting of the HLSCC was held in Istanbul on September 17-18, 2009, which was followed by Prime Minister Erdoğan's visit to Baghdad in October 2009 to co-chair the first meeting of the Council. The High Level Strategic Cooperation Council presents a unique model of cooperation for promoting economic prosperity and integration in Turkey's region.

Energy cooperation is an important aspect of bilateral relations. In cooperation with the Iraqi Government, Turkey wishes to export a significant part of Iraq's oil and gas reserves to international markets through its territory. Turkey also promotes the swift adoption of the hydrocarbon and revenue sharing legislations by the Iraqi Parliament.

Turkey is expanding its consular presence in Iraq in line with its efforts to strengthen bilateral relations in all fields. In addition to the opening of its Mosul Consulate General in 2007, Turkey has also opened Consulates General in Basra and in Erbil in 2009 and 2010, respectively. Turkey is considering further expanding its Consular network in Iraq in the coming years.

Turkey's main export items to Iraq are food products and beverages, basic metals, furniture, metal products, agriculture, electrical machinery, wearing apparel, rubber and plastic, and machinery and equipment products. There was a substantial increase in nearly all export items to Iraq between 2010-2014 period.

Turkey managed to diversify both its export markets and export products by implementing effective strategies in foreign trade. Export diversification to the MENA region allowed Turkish exports to grow despite weak demand in the EU, Turkey's major trade partner, after the global financial crisis. Moreover, since 2010, export to Iraq increased mainly due to the recovery in the economic activity and political stability in the region. Turkish organizations and businesspersons increased operations in this region to take advantage of its geographic proximity to Turkey.

The major industries of Turkish companies operating in Iraq are finance, construction, logistics, and wholesale & retail trade.

By the end of 2014, the amount of Turkish exports to Iraq had reached nearly U.S.\$11 billion, in comparison to U.S.\$6 billion in 2010. Turkish companies also play a crucial role in Iraq's reconstruction and development. As of 2014, a total of 1,600 Turkish companies operate in Iraq and their total undertakings reached U.S.\$2.2 billion.

In recent years Turkey has also significantly improved its relations with the Kurdish Regional Government (KRG) in Iraq. Turkish businessmen, contractors and workers have made crucial contributions to the prosperity and welfare in northern Iraq. In addition to the opening of Consulate General in Erbil, in 2010, frequent high-level visits have been carried out between Turkey and the KRG. Another important factor in Turkish-Iraqi relations is the presence of the PKK, a terrorist organization in northern Iraq. Turkey believes that the PKK constitutes a threat not only to Turkey and its people but also to the security and stability of Iraq, as well as the region at large. In this regard, having initiated a process to terminate the terrorist activities of the PKK, Turkey, seeks more resolute support and enhanced cooperation from the Iraqi authorities in removing the presence of this terrorist organization in northern Iraq. Turkey expects the Iraqi authorities, including the KRG, to take decisive and result-oriented measures to stop the activities of the PKK on Iraqi territory.

In December 2011 the United States forces completed their withdrawal from Iraq. Almost simultaneously, the country fell into a political crisis which has not yet subsided. The security situation remains fragile. Lack of trust among the government partners, sectarian politics in general and the isolation of Sunnis and Kurds in particular, spillover effects of the Syrian crisis and, most importantly, the reluctance to address power and revenue sharing concerns seem to lie at the heart of the present political deadlock in Iraq.

The overall security situation has severely deteriorated since December 2013. Attacks by DAESH (a synonym for the Islamic State terrorist group) have resulted in loss of at least 1/3 of Iraq's territory. As a result, the number of internally displaced persons continued to increase and reached 2 million by the end of 2014.

Throughout 2013 and most of 2014, due to dysfunctional government and lack of inclusive policies, public support to government has plunged, sectarian and ethnic based tensions have soared. Under these difficult circumstances, Iraqi Parliamentary elections were held in April 2014 and a new government was formed in September 2014. The

initial inclusive approach adopted by this government was reciprocated by the full support of the international community. Political, military, humanitarian and financial support extended to Iraq was a response to the positive attitude of Iraqi politicians in promising to endorse inclusive policies and uphold representativeness in governance. Turkey has also followed suit and offered assistance through communicating its political will to further strengthen relations. Turkey has offered military assistance to Iraqi Government in fighting against DAESH, while expeditiously dispatching humanitarian assistance to those in need. Establishment of three IDP camps in the north of Iraq for approximately 40,000 people is part of this assistance initiative.

On the political spectrum, Turkey and Iraq held several high level bilateral exchanges, especially following the formation of the new government in 2014. By the end of 2014, a second HLSCC meeting was held in Turkey under the auspices of the two Prime Ministers with the attendance of relevant Ministers, as well as businessmen.

Turkey hopes that the Iraqi leaders will resolve the outstanding political issues through democratic and constitutional means, to ensure equitable power and revenue sharing, while embracing all segments of the Iraqi society without ethnic or religious discrimination.

IRAN

Iran is Turkey's neighbor, located at the confluence of the Middle East, South Asia and the Caucasus. Developments with regard to Iran are of direct consequence to Turkey. Turkey has continually sought to engage Iran in helping stabilize this volatile region. Therefore, Turkey's relationship with Iran is an asset not only for Turkey but also for the wider international community.

Given the already volatile and unstable situation in this region, Turkey believes that only negotiated and cooperative solutions can provide lasting arrangements for issues that are of regional and global concern. Turkey, therefore, actively supports the resolution of the Iranian nuclear issue through dialogue and diplomacy. With this understanding, Turkey believes that reaching a comprehensive and lasting agreement between Iran and P5+1 will positively contribute to stability in the region.

Iran is an important trading partner of Turkey. In 2012, the volume of trade between Turkey and Iran reached the record level of U.S.\$21 billion. Since then, the trade volume decreased significantly. In January-November 2015 period, total imports from Iran decreased by 38% compared to the previous year, mainly due to lower energy costs, while exports to Iran declined only by 3.5%. In the last 6 years, the major products exported to Iran are natural or cultured pearls, precious metals and jewelry products, machinery and mechanical appliances, plastics and articles, wood and articles of wood, electrical machinery and equipment and parts, and tobacco products. Major products imported from Iran are mineral fuels and mineral oils, plastics and articles thereof, copper and articles thereof, organic chemicals, and fertilizers. In 2012, when the total trade reached its record level, the main product exported was gold and the main product imported was energy. Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof, imitation jewelry, coin accounted for 65.9% of total exports in 2012. Mineral fuels, mineral oils and products of their distillation, bituminous substances, and mineral waxes accounted for 89.4% of total imports in 2012.

The tourism sector constitutes the main part of Turkey's service trade, as well as trade in goods. The number of Iranian tourists visiting Turkey has increased rapidly in the last decade and reached its peak level of 1.9 million in 2010. From January-November 2015, the number of tourists from Iran was approximately 1.6 million, which accounted for a 4.6% share of the total number of tourists visiting Turkey during that same time period.

Given that Turkish and Iranian economies complement each other, bilateral relations between Turkey and Iran, particularly in trade and energy, will accelerate rapidly once the sanctions against Iran are lifted. Preferential Trade Agreement (PTA) between Turkey and Iran, which came into effect in 2015, will also be instrumental in increasing bilateral trade.

NON-PROLIFERATION AND DISARMAMENT

Turkey's security policies exclude the production and use of all kinds of weapons of mass destruction ("WMD"). Party to all international non-proliferation instruments and export control regimes, Turkey supports the universal use of such measures, as well as effective implementation in good faith and consistency. With a view to fulfilling the provisions of these instruments and arrangements, Turkey has an enhanced system of export controls systems in line with the standards of the European Union.

Turkey pursues a comprehensive and integrated policy in its region. Due to its proximity to areas of internal and regional strife, Turkey also closely monitors developments in its region and takes part in collective efforts aimed at containing and reversing alarming trends. In this respect, Turkey supports all efforts towards the establishment of an effectively verifiable zone free of WMD and their means of delivery in the Middle East, as an important confidence building measure that would contribute to the peace, security and stability in the region.

MIDDLE EAST AND NORTHERN AFRICA

During 2010, several high level bilateral visits took place between Turkey and Syria. The Syrian President paid two visits to Turkey on May 8-9 and on June 7. Prime Minister Erdoğan visited Syria on October 11, 2010. A Quadripartite High Level Strategic Cooperation Council ("QHLSCC") was also established among Turkey, Syria, Jordan and Lebanon in Istanbul in June 2010 with a view to creating a zone of free movement of goods and easing travel among its citizens to these areas.

A second Ministerial Meeting of the QHLSCC was held in Lattakia in October 2010 with the participation of 12 Ministers from the Turkish Cabinet. The Ministers assessed the ratification processes and the implementation of the agreements which were previously signed. Another meeting of QHLSCC at the Prime Ministers level took place in Ankara at the end of the year. Eleven new documents were signed and consensus was reached on various joint investment projects. During this period, Turkey urged the Syrian Administration to engage in reforms which would meet the needs of the Syrian people.

Turkey has invested substantial resources, politically, economically and otherwise, in its relations with Syria in the last ten years., prior to the conflict that began in March 2011, following the start of mass protests. The thriving relations between Turkey and Syria had contributed positively to bilateral trade, investment and tourism until the conflict erupted.

In March 2011, the Syrian people staged peaceful demonstrations, demanding democracy, freedom, human rights and the rule of law. However, the regime responded to these demonstrations with force and gradually started to use lethal force, killing many demonstrators. In the weeks and months that followed the initial protests, the regime continued its policy to suppress peaceful protests by using heavy weapons, tanks, fighter aircraft and ballistic missiles.

In view of these developments, on November 30, 2011, the Minister of Foreign Affairs Ahmet Davutoğlu announced measures vis-à-vis the Syrian Administration, in close consultation with the Arab League, in an effort to curtail the capacity of the Syrian administration to commit acts of violence against its citizens. The measures adopted include, among others, (i) suspending the High Level Strategic Cooperation Council mechanism until a democratic administration comes to power, (ii) imposing travel ban and asset-freeze measures against some members of the Syrian leadership who have been reportedly involved in incidents where excessive violence and illegal methods were used against civilians, (iii) freezing the financial assets of the Syrian Government in Turkey, (iv) ceasing transactions with the Syrian Central Bank. On May 30, 2012, after the violence committed by the Syrian security forces in the town of Houla, pursuant to Article 9 of the Vienna Convention on Diplomatic Relations, Turkey, as the host country, requested that the Syrian Chargé d’Affaires in Ankara and all other diplomatic personnel of the Embassy to leave the country, (v) terminating oil exports from Syria, and (vi) freezing credit relations with the Syrian government.

The situation in Syria progressively deteriorated in 2013 and 2014. By the end of 2014, the number of Syrians who sought refuge in neighboring countries surpassed 3 million. The death toll reached 245,000. The number of those in need of assistance inside Syria rose to 10.8 million. Over the course of 2014, the regime continued its indiscriminate attacks against innocent civilians and further escalated its campaign of violence through the continued use of heavy bombardment (ballistic missiles, barrel bombs) as well as chemical weapons.

On December 4, 2012, NATO approved the augmentation of Turkey’s air defense capabilities. In this context, United States, German, Dutch and Spanish Patriot batteries have been deployed in Turkey in various periods since 2013.

On March 23, 2014, a Turkish fighter jet shot down a Syrian jet and lastly on May 16, 2015 a Turkish fighter jet shot down a Syrian aerial vehicle for violating Turkish air space in accordance with its rules of engagement and determination to protect its borders.

In line with its humanitarian approach, Turkey continues to pursue its open-door policy without any discrimination. The number of Syrians under temporary protection in Turkey

has exceeded 2 million, of whom 260,000 are accommodated in 25 temporary protection centers as of August 2015. The Turkish Government has spent more than U.S.\$ 6 billion for Syrians in Turkey, whereas the total contributions we received bilaterally and multilaterally from the international community so far have been limited to U.S.\$ 417 million.

As a response to the shattering infrastructure and lack of services within Syria, Turkey mobilized its own resources to address and alleviate the suffering of the Syrian people through on-the-ground humanitarian assistance in conformity with international legitimacy and humanitarian principles. The total value of the aid channeled to Syria through zero point operations was in the range of U.S.\$330 million. Since July 2014, Turkey has also been cooperating closely with the UN to enable UN cross-border humanitarian operations into northern Syria within the framework of UN Security Council Resolution 2165.

The regime's aggression, as well as the growing presence of extremist and terror elements (supported by the regime, particularly in, but not exclusive to, the northern parts of Syria) constitute a deep and increasing concern for Turkey's national security. This threat became more acute and manifold with the emergence of DAESH in Syria in the beginning of 2014. DAESH terrorism quickly became a threat to regional security as well as had a direct impact on Turkey's national security.

The latest terrorist attack in Suruç on July 20, 2015 and DAESH's targeting Turkey's military border post directly on July 23, 2015, compelled Turkey to initiate necessary and proportionate military actions against this terrorist organization in Syria. On July 24, 2015, Turkish Air Force hit certain DAESH targets in Syria, based on Turkey's right of self-defense in accordance with Article 51 of the UN Charter.

As a member of the International Coalition, Turkey contributes to the Coalition's efforts in Syria and Iraq through the use of its own national assets and capabilities. Additionally, Turkey and the United States decided to deepen their cooperation in the fight against DAESH terrorism in July 2015. This understanding was confirmed between the two countries at the highest level on July 22, 2015 (Telephone conversation between Presidents Erdoğan and Obama).

Turkey continues its efforts in cooperation with its regional and international partners in order to bring an immediate end to the violence in Syria and to initiate a political transition process in line with the legitimate demands of the Syrian people. Turkey remains fully committed to a political solution in Syria and will continue to support all efforts for a genuine political transition based on the principles of the Geneva Communiqué.

In view of the fundamental changes taking place in the Middle East and North Africa in the recent period, finding a just, lasting and comprehensive settlement to the Israeli-Palestinian

conflict has become all the more important and urgent. Turkey supports all efforts for the resumption of the direct negotiations for the resolution of the Israeli-Palestinian conflict, through a two-state solution based on pre-1967 borders that would lead to the establishment of an independent, sovereign and viable Palestinian State with East Jerusalem as its capital, to live in peace and security with the State of Israel.

Turkey was deeply disappointed by the failure of the bilateral peace talks between the parties under the auspices of the United States in April 2014. Turkey made significant contributions to the mediation efforts to establish a ceasefire, which was reached on August 26, 2014. On the other hand, Turkey has repeatedly condemned the Israeli illegal settlement activities, which have been carried out even in the delicate periods of the negotiations process, and which undermine the basis for just, lasting and comprehensive peace. Thus, Turkey continues to oppose ever expanding settlement activities of Israel in the occupied Palestinian territories, as the settlements endanger the vision of a two-state solution.

In light of Israel's intransigence in the peace process and the fact that meaningful negotiations can take place only on an equal footing, Turkey supports the Palestinian initiative to achieve full international recognition. Turkey also actively contributed to the Palestinian bid for a "non-member observer state" status which was granted by the support of an overwhelming majority of the member states at the UN General Assembly on November 29, 2012. Turkey also welcomes the recent steps in Europe towards the recognition of Palestine as a state.

Turkey sees the Palestinian unity as imperative for a sustainable settlement of the conflict. With this understanding, it supports the Palestinian reconciliation with the view that the establishment of an inclusive Palestinian Government is essential for putting the peace process on a credible ground and for the realization of the two-state vision. Turkey welcomed the establishment of the National Unity Government on June 2, 2014 and it actively encourages the parties to strengthen the Unity Government.

Turkey has maintained its bilateral program of assistance and its contribution to the international efforts aimed at improving the economic and humanitarian situation in Palestine. It carries out projects in the Palestinian territory through the Turkish Cooperation and Coordination Agency ("TIKA"), Prime Ministry Disaster and Emergency Management Authority ("AFAD"), and Turkish Red Crescent, in areas such as health, education, technical assistance, protection of cultural heritage, and water supply. Moreover, Turkey pledged U.S.\$200 million in the period of 2015-2017 at the Donors Conference in Cairo, which took place on October 12, 2014 for the reconstruction of, and the humanitarian aid to Gaza. At the end of 2014, Turkey's assistance (developmental and humanitarian alike) to Palestine has reached U.S.\$369 million. Turkey continues its participation in the Temporary International Presence in Hebron ("TIPH") as well as in the UNIFIL.

On May 31, 2010, the Israeli armed forces intercepted a civilian aid flotilla in international waters that had embarked from Turkish ports and was bound for Gaza. The Israeli armed forces boarded the boats comprising the flotilla and 10 Turkish civilians were killed. As a result, Turkey downgraded its diplomatic representation in Israel to the level of second secretary, requested that Israel's ambassador leave Turkey and suspended all military agreements with Israel. On March 22, 2013, Israel formally apologized to Turkey for the 2010 raid, and Prime Minister Netanyahu pledged to pay compensation to the victims' families and to continue to ease restrictions on the movement of civilian goods into Gaza, according to a statement released by Prime Minister Netanyahu's office. This development is seen as a first step to normalize ties between the two countries. The technical level talks on compensation to victims' families are completed and the parties are at the final stage of the settlement process.

Bilateral economic and trade relations continue and the Free Trade Agreement, signed in 1997, remains in place. Bilateral trade has risen steadily reaching U.S.\$5.4 billion in 2014.

Turkey has constantly supported democratic aspirations which have arisen in the Middle East and North Africa. It encouraged the governments to engage in political and economic reforms with a view to addressing the legitimate demands of their peoples. It also offered support in this regard. Turkey, however, strongly rejects and condemns the brutal suppression of the peaceful popular movements as well as military coups against democratically elected governments that have occurred in some countries.

As a country which ignited the first spark of the Arab Spring, Tunisia accomplished important steps in its transition process. After the adoption of the new Constitution and the formation of the new government, Tunisia can now contemplate a new period based on pluralism and democracy. On the other hand, economic and security-related challenges still remain to be addressed. Particularly, increasing terrorist activity has posed a significant threat, which has broader implications for Tunisia's democratic consolidation efforts and economic well-being. With this understanding, Turkey continues to provide technical and financial support to Tunisia to ensure lasting stability, democracy and welfare in the country. High Level Strategic Cooperation Council mechanism, established in 2013 among Turkey and Tunisia, has given a fresh impetus to the bilateral relations of the two nations. The first meeting of the Council was held on June 6, 2013 in Tunis. The two countries are working on joint projects that will enable Turkey to share its experience and expertise in the fields of economic development, defense, security, poverty reduction and technical training.

In order to facilitate the transition process, Turkey has extended financial assistance to Tunisia. Turkey provided a financial package worth U.S.\$500 million (U.S.\$50 million grant, U.S.\$200 million loan, U.S.\$200 million Eximbank loan and remaining U.S.\$50 million grant to finance TICA projects in Tunisia) to Tunisia.

The fact that Libya needs to re-build most of its institutions in the post-Qaddafi period still remains an arduous challenge. Turkey has extended full support to Libya from the outset of the February 17th revolution. In line with the urgent priorities of Libya, Turkey has contributed to capacity building efforts in the field of security. Turkish institutions have offered training programs in different fields (to military cadets, police officers and border guards). However, clashes that have erupted in May 2014 affected different parts of the country and resulted in a recurring spiral of violence. Continued armed clashes have added fuel to legitimacy claims among rival political factions, mainly in Tripoli and Tobruk. Given the increasing presence of terrorist groups in the country, the need for finding an urgent and viable political solution in Libya has become a priority issue for the international community as well. In this regard, UN-facilitated political dialogue aimed at forming a Government of National Accord offers a valuable opportunity for the Libyans. Turkey supports this Libyan-led and owned process and stands ready to contribute to the effective implementation of a prospective deal.

Turkey has supported the democratic transition in Egypt from the outset. Democratization of Egyptian politics is of particular importance, as this country occupies a central role in the Arab and Muslim world. With this understanding, as was the case in the immediate post-Mubarak era, Turkey has been calling for a swift return to democracy since the military coup of July 2013. Turkey advocates the view that the long term stability, security and economic development of Egypt would only be attained through the establishment of a democratic political system which is based on the free will of the Egyptian people. Therefore, Turkey rejects the toppling of the democratically elected government through undemocratic ways, alienation of certain segments of society, as well as violence and disproportionate use of force against civilians.

Yemen faces severe political, economic, humanitarian and security problems. These challenges require a resolute and unified stance from the international community, particularly the UN. Turkey believes that a lasting settlement in Yemen could be possible only through peaceful political dialogue and reconciliation, based on the parameters set by the Gulf Cooperation Council Initiative, the National Dialogue Conference outcomes and the UN Security Council Resolution 2216. With this understanding, Turkey supports international efforts to find a political solution in Yemen.

Turkey has been supportive of constitutional legitimacy in Yemen represented by President Abd Rabbu Mansour Hadi. To assist economic development in Yemen, Turkey pledged U.S.\$100 million to Yemen in 2012. This amount has been allocated for specific capacity-building projects. As the conditions on the ground allow, these projects will be put into implementation, following the signing of the draft Grant Agreement. Turkey also extends humanitarian assistance to Yemen. Turkey has delivered humanitarian aid both in Yemen and in Djibouti.

GULF COOPERATION COUNCIL

Turkey has strong political, economic, commercial and cultural ties with the Gulf countries, based on deep-rooted common history, common values and interests. Turkey views its relations with the Gulf countries from a strategic perspective and wishes to further develop its relations with the Gulf Cooperation Council (“GCC”). To this end, there is common will and mutual understanding between Turkey and the GCC. In 2008, the Turkey-GCC High Level Strategic Dialogue Mechanism was established. Within this Mechanism, four meetings have been held thus far at Foreign Ministers level.

Moreover, the bilateral relations between Turkey and the Gulf countries have been steadily developing. High level bilateral visits are frequently held between Turkey and the Gulf countries and several agreements have been signed, which continue to contribute to the expansion of relations in all fields between Turkey and the GCC countries.

TAF

Turkey and the League of Arab States (the Arab League) concluded an agreement in 2007 whereby they established the Turkish-Arab Cooperation Forum (“TAF”). The Forum identified the followings as the primary fields of cooperation: (i) political and security cooperation (ii) economy, (iii) culture, (iv) social development and (v) matters relating to the alliance of civilizations. Alongside officials in charge of economic affairs, TAF also envisages platforms for political cooperation, such as the meetings of Foreign Ministers and parliamentarians. The Fifth Meeting of the Turkish-Arab Cooperation Forum at the level of Ministers of Foreign Affairs was held in Istanbul on December 1, 2012. The first meeting of the Economy, Trade and Investment Ministers was held in Mersin, Turkey, on September 25, 2013. The second meeting was held in Kuwait on April 20, 2015. Moreover, the Turkish-Arab Economic Forum, organized since 2005, brings together representatives of the private sector. The 10th Meeting of Turkish-Arab Economic Forum was held on April 1-2, 2015 in Istanbul.

Turkish Minister of Finance Mehmet Şimşek participated in the conference titled “Over the Horizon: A New Levant” which was held in Beirut on June 12, 2014. The conference was organized by the Levant Business Union, which was established in 2011 with the active involvement of Turkey and the World Bank.

RUSSIA

Bilateral relations between Turkey and Russia have been steadily developing in various areas over the recent years. While the view of the two nations differ on a number of international issues, in particular, with respect to Crimea, the Ukraine crisis and Syria, the two countries keep their channels of dialogue open.

Taking into account the development of ties in different spheres, Turkey and Russia founded the High Level Cooperation Council (HLCC) in May 2010.

This HLCC holds annual meetings co-chaired by the Presidents and attended by ministers and heads of major agencies from both countries. It sets the general framework and direction of bilateral relations. The last HLCC meeting was held in Ankara in December 2014.

The HLCC has three organs; the Joint Strategic Planning Group, which deals with cooperation on international matters, the Joint Economic Commission, which reviews economic relations, and the Civic Forum, aimed at strengthening public-to-public interaction. Economic and commercial relations between Turkey and Russia have been developing since the early 2000s. Bilateral trade has reached over U.S.\$30 billion since 2008, comprising mostly Turkey's energy imports from Russia.

Reciprocal investments have also exceeded U.S.\$10 billion each, as of 2014, excluding the multi-billion dollar Akkuyu nuclear power plant project being built in Turkey.

Tourism constitutes an important aspect of Turkish-Russian bilateral relations. Every year, over 4 million Russian tourists visit Turkey. Yet another field of economic cooperation is the construction sector. Turkish construction companies have completed various projects in Russia, the total value of which has reached U.S.\$ 56 billion as of the end of 2014.

Turkey wishes to use the opportunities presented by Turkey-Russia ties to bring welfare and prosperity to its region. While not implementing sanctions against Russia, Turkey uses the frank dialogue between the two countries to share its bilateral and international concerns with Russia at all levels.

On December 1, 2013, Turkey joined the "G-20 Troika" along with Australia and Russia. The "G-20 Troika" is a three-member committee made up of the past, current and future host countries of the G-20, which supports the G20 presidency. Turkey has taken over the G20 presidency on December 1, 2014 and will remain a member of the "G-20 Troika" until the end of 2016.

SOUTH CAUCASUS

The South Caucasus occupies one of the unique places in Turkey's quest for peace, security and prosperity in its neighborhood and beyond. Turkey's approach to the South Caucasus is shaped by its desire to establish a climate conducive to comprehensive peace and cooperation among all states of the region.

The region is home to three of the four protracted conflicts of the OSCE area, namely that of Abkhazia, South Ossetia and Nagorno-Karabakh ("NK"). The protracted conflicts are permanently a destabilizing factor and threat to the security of this crucial region. These conflicts have also prevented the region from realizing its full cooperation potential, which in turn, adversely affects regional wealth and prosperity. In this regard, Turkey is engaged in significant diplomatic efforts for strengthening peace and stability in the South Caucasus region.

The NK conflict constitutes a major impediment to the establishment of peace, stability and prosperity and it also prevents the emergence of a cooperative atmosphere in the South Caucasus. With this in mind, Turkey, as a member of the OSCE Minsk Group, continues to support the efforts towards the peaceful settlement of the NK conflict. Turkey is also working on confidence building measures including ones in the transport sector with a view to creating peace, stability and prosperity atmosphere in the region.

The process that Turkey has initiated with Armenia for the normalization of its relations should also be regarded as the reflection of this interest. The signing of the protocols on October 10, 2009 in Zurich was a major achievement in the direction of building a comprehensive and sustainable peace in the South Caucasus. Turkey keeps its adherence to the protocols and remains committed to the normalization process. However, Armenia does not display a similar approach as shown by its latest move of recalling the Protocols from the Armenian Parliament.

Turkey enjoys excellent neighborly relations with Azerbaijan and Georgia. The three countries are engaged in substantial regional cooperation projects such as the Baku–Tbilisi–Ceyhan (“BTC”) oil pipeline (operational since 2006), Baku–Tbilisi–Erzurum (“BTE”) gas pipeline (operational since 2007) and Baku–Tbilisi–Kars (“BTK”) railway project and the TANAP project.

CENTRAL ASIA

Central Asia constitutes a strategic aspect of Turkey’s multi-dimensional foreign policy. Turkey shares common historical, linguistic and cultural ties with the Central Asian Republics (“CARs”).

Today, Turkey’s cooperation with CARs has reached a strategic partnership level in many fields. Since 1991, Turkey’s desire for a stable, independent and prosperous Central Asia has guided policy priorities in the region towards building free market economies and functioning democracies. Turkey believes that a secure and democratic Central Asia will be in the interest of the region as well as the whole world.

Turkey has High Level Strategic Cooperation Council mechanisms with Kyrgyzstan and Kazakhstan, as well as strategic cooperation with Turkmenistan in areas ranging from energy to trade. Turkey’s economic and trade relations with CARs have reached a new horizon with each of them, by being either their major or one of their leading trade partners. Turkey’s trade volume with the countries of the region reached U.S.\$8.5 billion at the end of 2014. In addition, Turkish construction companies have completed around U.S.\$67 billion worth of projects in the region. Turkish direct investments in the region amounted to U.S.\$4.5 billion as of the end of 2014. More than 2,000 Turkish companies

are operating in the region. Moreover, the total amount of loans given to the countries in the region through Eximbank is around U.S.\$2 billion. Turkey has also provided the region with a substantial amount of development assistance, worth approximately U.S.\$1.9 billion in the last 10 years.

Turkey spearheaded the process of The Summits of Turkic Speaking Countries, which has been held since 1992, with a view to increasing solidarity and cooperation among the CARs. This process gained an institutional structure through the Establishment of the Cooperation Council of Turkic Speaking States in 2010. The Council has been conducting various projects, ranging from education to transportation. The Secretariat of the Council is located in İstanbul Furthermore, the International Turkic Academy and Turkish Culture and Heritage Fund have been established in Astana and Baku, respectively, within the framework of the Council.

Given the critical geopolitical location and proximity to Afghanistan, countries in the region may face financial and security challenges. Turkey is closely working with these countries to assist them in their effort to strengthen their security environment.

Turkey encourages steps taken in the fields of democracy, rule of law and human rights in the Central Asian countries and believes that such steps will contribute to their stability, security and integration with the international community.

AFGHANISTAN

Turkey has traditional ties of close friendship with Afghanistan and upholds the sovereignty, independence, territorial integrity and national unity of the country. In this regard, Turkey cultivates bilateral ties with Afghanistan in every field and actively contributes to international efforts to establish lasting stability and security and ensure sustainable development in the country. Turkey has supported the International Security and Assistance Force (“ISAF”) Operation, aiming at providing security and stability to Afghanistan from 2001 until its termination on December 31, 2014. Turkey twice assumed the ISAF Command and the Central (Kabul) Regional Command.

Following the completion of the ISAF Operation, the Resolute Support Mission (RSM) was launched by NATO on January 1, 2015. Turkey continues as a “framework nation” (a term used by NATO to define a nation accepting the primary responsibility for completing the tasks assigned to a multi-national headquarters groups and/or units) in the Kabul region and assumed the responsibility of the Kabul International Airport in the RSM as of January 1, 2015. Former Turkish Ambassador to Kabul currently serves as the Senior Civilian Representative of NATO in Afghanistan. Furthermore the Turkish Embassy in Kabul carries out the role of NATO Contact Point for the 2015-2016 period.

As a continuation of its historical solidarity, Turkey’s assistance to the Afghan people is the most comprehensive development aid program directed to another country throughout

its history. Within this aid program, Turkey has completed 806 projects in all provinces of Afghanistan since 2001, worth more than U.S.\$300 million. Turkey also committed U.S.\$1 million at the Tokyo Conference in 2004, U.S.\$100 million at the London Conference in 2006 and U.S.\$100 million at the Paris Conference in 2008, to the development of Afghanistan. These contributions were used to fund various development projects. At the Tokyo Conference in 2012, Turkey pledged U.S.\$150 million to the development efforts in Afghanistan for the 2015-2017 period. This pledge was reiterated during the London Conference in 2014. Turkey also confirmed its pledge of U.S.\$60 million to the Afghan National Defense and Security Forces for the 2015-2017 period. Turkey is the seventh biggest contributor of financial aid of all its NATO allies, in terms of the amount of its financial commitments in Afghanistan.

As a part of its capacity building assistance in the field of security in Afghanistan, Turkey organizes comprehensive training programs for the Afghan National Army (“ANA”) and Afghan National Police (“ANP”). Turkish Armed Forces have trained some 17,500 ANA members since 2001. Nearly 3,250 ANA members were trained in Turkey. The Security General Directorate organized 82 different training programs between 2001 and 2004 and a total of 1,234 Afghan police cadets were trained. Since 2011, 1,956 Afghan police cadets were trained in 4 terms of a six-month program. Likewise, a total of 494 Afghan women police cadets were trained since 2011.

The largest part of Turkey’s development assistance is dedicated to education in Afghanistan. Turkey has built 85 schools in Afghanistan and more than 700,000 Afghan citizens have been served by the schools built by Turkey so far. Health is the second largest field of Turkey’s development assistance to Afghanistan. A total of 214 projects were completed in this field. 17 hospitals or clinics were built or repaired. Two hospitals and two clinics have been operated by Turkey (TIKA) for five years. Thus far, some 3.5 million Afghans have been served by hospitals, clinics and mobile health clinics operated by Turkey. Transport and storage services is another field supported by development assistance funds. 20 projects were completed in the areas of road and bridge construction and restoration , amounting to U.S.\$42.5 million.

Agriculture (pest control, water control and training in other agricultural issues), forestry, fishery, infrastructure and water purification (more than 500,000 Afghans have access to potable water through 168 water wells, which were dug by Turkey) and civil aviation are the other fields supported by Turkey’s development assistance funds. Turkey also contributes to Afghanistan in the field of civil capacity building, particularly administrative infrastructure and governance. 43 projects were completed in the field of culture and social peace, amounting to U.S.\$6.7 million.

Encouraging regional cooperation not only constitutes a significant aspect of Turkey’s overall vision for South Asia, but it is also one of the pillars of its comprehensive strategy towards Afghanistan. With this understanding, Turkey actively participates in international efforts and mechanisms with respect to Afghanistan. As a part of these efforts, it hosted several international meetings in support of regional and international cooperation between 2007 and 2014, including eight Afghanistan-Pakistan-Turkey Trilateral Summit meetings.

The Trilateral Summit Process, launched at Turkey's initiative in 2007, has evolved in time into a solid platform for multidimensional cooperation among Turkey, Pakistan and Afghanistan. The process has three dimensions: political dialogue, security cooperation and development partnership. It allows for the development of multidimensional cooperation in areas such as economy, development, security, education and training, while enabling enhanced contacts across a wide spectrum, including among parliamentarians, businessmen and members of the media. The Eighth Summit was held in Ankara in February 2014. Turkey also continues to encourage regional cooperation through the Heart of Asia-Istanbul Process. This Process, which was initiated by Turkey and Afghanistan at the Istanbul Conference for Afghanistan on November 2, 2011, serves as a regional cooperation platform with Afghanistan at its center, engaging regional countries in political dialogue and practical cooperation through the implementation of confidence building measures ("CBMs"), Counterterrorism, Counternarcotics, Disaster Management, Trade, Commercial and Investment Opportunities, Regional Infrastructure, Education). It also seeks to create synergies among other regional organizations. The spirit of regional ownership and the support of the international community have made it possible for this Afghan-led process to make significant headway. Turkey takes part in the implementation of all CBMs and leads the Counter Terrorism CBM together with Afghanistan and the United Arab Emirates. The fourth Ministerial Conference of the Process was held in Beijing, on October 31, 2014.

Overall, these initiatives aim at creating a climate of confidence and increasing cooperation among countries of the region which face common challenges.

ASIA-PACIFIC

Turkey follows developments taking place in the wider Asia-Pacific region with keen interest as a country located at the center of the Afro-Eurasian geopolitical plane. Its unique place presents it with opportunities to engage with a wide a range of culturally diverse countries along the ancient Silk Road.

In line with its multi-dimensional foreign policy and in view of the growing economic and political significance of the Asia-Pacific, Turkey has adopted policies geared towards a more constructive relationship with the region, broadly referred to as "opening-up to the Asia-Pacific region," which have gained considerable pace and depth in recent years. The main elements of the policy include, fostering economic and trade relations, enhancing political dialogue, establishing necessary legal frameworks and strengthening cultural ties.

Over the last decade, high-level bilateral visits as well as bilateral trade and investments between Turkey and the regional countries intensified. Turkish Airlines fly to more

destinations with an increasing number of flights per week. Turkish Cooperation and Coordination Agency (“TIKA”) has increased the number of its development projects, especially with regard to the Pacific Island countries. Cultural exchanges have grown through mutual culture years and Turkish scholarships provided to the regional countries.

Bilateral relations with the G-20 members of the region, namely Australia, China, Indonesia, Japan and the Republic of Korea remain strong both economically and politically. Between 2010 and 2014, Turkey successfully elevated its relations with six countries in the region to the level of strategic partnership: China, Japan, Indonesia, Korea, Malaysia and Singapore.

Turkey enjoys amicable relations with the members of the Association of Southeast Asian Nations (“ASEAN”), which constitute the world’s third largest population (620 million) along with 4.46 million kilometer squares of surface area and a GDP of U.S.\$2.3 trillion at the center of the Asia-Pacific region. Turkey continues to expand its diplomatic network in the region by opening new Embassies, most recently, in Nay Pyi Taw, Phnom Penh, Bandar Seri Begawan, which will be followed by new missions in Laos and in a number of Pacific Island states.

Economic relations with the Asia-Pacific region have also strengthened in the last decade. A decade ago, the total volume of bilateral trade was U.S.\$13 billion; it surpassed U.S.\$67 billion in 2014. The increase of bilateral trade with China has been eight-fold, the Republic of Korea - six-fold, Australia and New Zealand combined - five-fold; and four-fold with the ASEAN as a whole.

Major items exported to Asia-Pacific are salt and sulphur, ores, slag and ash, nuclear reactors, boilers, machinery and mechanical appliances, inorganic chemicals, vehicles other than railway or tramway rolling-stock, mineral fuels and oils, and iron and steel. Major items imported from Asia-Pacific are electrical machinery and equipment, nuclear reactors and boilers, plastics and articles, mineral fuels and oils, vehicles other than railway or tramway rolling-stock, iron and steel, organic chemicals, and optical machines.

From 2011 onward, Turkey has signed Free Trade Agreements with the Republic of Korea and Malaysia and has launched negotiations with Singapore.

In addition to the efforts at the bilateral level, Turkey has taken necessary steps to develop its ties with the regional organizations active in Asia.

Turkey’s Dialogue Partnership with the Shanghai Cooperation Organization in June 2012 is another example of its opening to the Asia-Pacific region, as are the signing of the ASEAN Treaty of Amity and Cooperation in 2010 and its active participation in the Pacific Islands Forum (“PIF”) as Post-Forum Dialogue Partner. Turkey has also officially applied to join the Asia-Europe meetings (“ASEM”) from within ASEM’s European Group.

In Southeast Asia, the signing of the Treaty marked a turning point in Turkey-ASEAN relations, paving the way for Dialogue Partnership in the future. Today, our Embassy in Jakarta is accredited to ASEAN.

Turkey has also expanded its relations with the Pacific Island countries. It hosted Turkey – Pacific Small Island Developing States Foreign Ministers Meeting in 2008 and 2014. During this period, Turkey established diplomatic ties with Cook Islands, Marshall Islands, Kiribati, and Niue. As an emerging donor country and development partner, Turkey has allocated U.S.\$1 million for the development of Small Island States.

Against the background of emerging cooperative relations between Turkey and the Asia-Pacific states and organizations, Turkey is committed to working towards ever closer engagement with the region.

AFRICA

Turkey-Africa relations have gained considerable momentum since the declaration of Turkey as a strategic partner of the Continent by the African Union in January 2008, and the “First Turkey-Africa Cooperation Summit,” held in Istanbul, in August 2008.

The “Opening up to Africa Policy” has been replaced by the “African Partnership Policy.” Turkey’s relations with the region have been transformed into a mutually reinforced political-economic partnership.

Partnership is further strengthened by the Second Turkey-Africa Partnership Summit held in Malabo, Equatorial Guinea, in November 2014.

Turkey pursues a multilayered policy in Africa, giving priority to the principle of “African solutions to the African problem” and aiming to establish close political relations by intensifying bilateral high level visits and defending the rights of various African nations at the bilateral and multilateral level: assisting certain African countries to overcome economic difficulties through trade, investment and humanitarian assistance; when duly requested, playing a role through diplomacy in the settlement of conflicts and disputes between East African nations and in intra-state conflicts; assisting certain countries in Africa to progress in the areas of democracy and good governance; giving support to the international and regional organizations to increase dialogue, understanding and peace in affected regions; and participating in peacekeeping missions in certain parts of the continent.

The increase in the number of the Turkish embassies in the continent serves as an indicator of this interest. While the number of Turkish embassies was only 12 in 2002, this figure has now reached 39. This process has not been one-sided, as many African countries opened embassies in Turkey. Currently, 32 African countries have embassies in Ankara.

Turkey’s trade volume with Sub-Saharan Africa in 2000 was U.S.\$742 million. This figure reached almost U.S.\$8.4 billion in 2014. The overall trade volume with the whole African continent has reached U.S.\$23.4 billion in 2014.

Major items exported to Africa are iron and steel, nuclear reactors, boilers, machinery and mechanical appliances, mineral fuels and oils, and electrical machinery and equipment. Major items imported from Africa are mineral fuels and oils, jewelry and precious metals, cocoa, plastics and articles, copper and articles, and iron and steel.

In line with the developing relations, the value of the Turkish direct investments to Sub-Saharan African countries is also steadily increasing. Total Turkish investment in Africa

is estimated to be around U.S.\$ 6 billion. Turkey, under various cooperation schemes, has been trying to share its experience in the fields of agriculture, health, education, energy, tourism and environment.

TIKA is the key governmental agency carrying out humanitarian and development assistance. TIKA has been active in 37 African countries with its projects in various fields. TIKA has 15 Co-ordination Offices in the continent.

The total amount of Turkey's official bilateral development assistance to Africa was U.S.\$ 783 million in 2013. Turkey has become a prominent country in humanitarian activities across the continent ranging from Somalia to Niger and Sudan.

Turkish Airlines commenced flights to Mogadishu, Kigali, Abidjan, Cotonou, Kinshasa, Djibouti, Nouakchott, Mombasa, Niamey, Ouagadougou, Libreville and Bamako in Sub-Saharan Africa, bringing the total number of THY flights in the continent to over 40 destinations.

Under the scholarships program, Turkey provided 3,364 scholarships to students from Sub-Saharan Africa and 799 scholarships to students from North African countries during the 2010-2014 period.

LATIN AMERICA

Aware of the rising importance of the Latin American and the Caribbean regions in world economy and politics, Turkey, since the late 1990s, has been pursuing a strategy of outreach to the region, not only to improve the visibility of Turkey in the continent, but also to expand the network of its cooperation at the bilateral level as well as with the regional and international players.

At the bilateral level, Turkey, firmly believing in the importance of frequent high-level visits and the conclusion of agreements in order to complement the legal framework of its relations, has come a long way in enhancing its bilateral political, economic, commercial, cultural and defense relations with the regional countries. In 2012, there were two official Presidential visits from Ecuador and Chile. In 2013 the President of Mexico visited Turkey. During the visit, relations between Turkey and Mexico were elevated to the level of strategic partnership and Mexico became Turkey's second strategic partner in the region after Brazil. President Recep Tayyip Erdoğan visited Colombia, Cuba and Mexico between the 9th and 13th of February 2015. The visit was the first presidential tour to Latin America from Turkey in the last 20 years. Turkey's economic and trade relations with the countries of this region have displayed a significant increase and the overall trade volume exceeded U.S.\$9 billion as of the end of 2014.

Major items exported to Latin America are iron and steel, vehicles other than railway or tramway rolling-stock, nuclear reactors and boilers, ships, boats and floating structures, and mineral fuels and oils. Major items imported from Africa are mineral fuels and oils, oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruit, industrial or medicinal plants, straw and fodder, ores, slag and ash, vehicles other than railway or tramway rolling-stock, copper and articles, nuclear reactors and boilers, and iron and steel.

Turkey has increased the level of its diplomatic representation in the region by opening another embassy in San Jose, in addition to the existing 11 Embassies as well as a Consulate General in Sao Paulo. Turkey's embassy in Guatemala will become operational in 2015. Preparations to open new embassies in the region are also underway. Moreover, Turkish Cooperation and Coordination Agency (TİKA) opened its Coordination Office in Mexico City. TİKA Coordination Office in Bogota will be operational soon. Through such enhanced representation, Turkey will be better equipped to further its relations and cooperation with the broader region.

Direct Turkish Airlines flights between Istanbul and Sao Paulo since 2009 have also played a pioneering role in this respect. Flights from Istanbul to Buenos Aires via Sao Paulo commenced in December 2013. Efforts are underway to initiate new direct flights to several new destinations in the region. These flights are instrumental in increasing the level of tourism and trade between Turkey and these countries. Chile became the first country in the region with which Turkey has concluded a Free Trade Agreement. Turkey is currently negotiating similar agreements with other countries of the region, such as Mexico, Colombia, Peru (the Pacific Alliance) and Ecuador. While building closer ties with the countries of the region and diversifying relations on a bilateral basis, Turkey has also sought to strengthen its cooperation with regional organizations. Turkey enjoys permanent observer status in the Organization of American States ("OAS"), the Association of Caribbean States ("ACS"), the Pacific Alliance and Central American Integration System ("SICA"). Furthermore, Turkey established a Cooperation and Consultation Mechanism with the Caribbean Community (CARICOM), a Political Dialogue and Cooperation Mechanism with MERCOSUR and a Consultation Mechanism with the Community of Latin American and Caribbean States ("CELAC")-Quartet.

ECONOMY

BACKGROUND

After the 1980s, significant progress was made in Turkey towards establishing a full-fledged market economy. In this respect, a radical policy shift from government intervention and import substitution to a greater reliance on market forces and trade liberalization was necessary. In order to complete this process, international capital markets were entirely liberalized in 1989. In addition, a Customs Union covering Turkey's industrial product and the last stage of the association agreement between Turkey and the European community both began in 1996. These reforms contributed significantly to the dynamic growth of the private sector and underpinned the flexibility of the Turkish economy to adapt to both internal and external factors. The success of those reforms implemented in Turkey is also reflected by the strong performance of the Turkish economy in the last decade.

Turkey's real GDP annual growth rate averaged 5.4% during the period from 2010 to 2014. Over this period, the Turkish economy became more diversified. In particular, the industrial base was broadened, and exports of goods and services grew rapidly. In addition, financial markets expanded and became more sophisticated. Turkey's long-term gross external debt levels rose in absolute terms from U.S.\$214.8 billion in 2010 to approximately U.S.\$269.6 billion in 2014. See "Debt-External Debt and Debt Management" for details.

In addition to the registered economy, Turkey has an unregistered economy, which is substantial, though by definition unquantifiable, and has historically not been reflected in the statistics of the Republic. The unregistered economy, which is referred to as "shuttle trade", includes significant amounts of activity in the agricultural sector and trade by the Republic with states consisting of the Commonwealth of Independent States (CIS) (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan). Consequently, trade and other figures may under-report the actual level of economic activity intended to be measured. The Government has been working with the World Bank to bring more untaxed economic activities within the scope of the registered economy, and therefore within the tax base of Turkey. Since 1996, the Government has developed a methodology to account for the portion of the unregistered economy relating to "shuttle trade" with the CIS republics. See "Foreign Trade and Balance of Payments-Current Account".

Global Financial Crisis

Turkey's economy was impacted by the 2008-2009 global financial crisis but began to recover in the last quarter of 2009. See "Gross Domestic Product". Since 2003, the Republic has maintained fiscal discipline, as evidenced by the fact that the Republic's debt ratios have been below the Maastricht criteria (a required debt ratio in order to adopt the European Union's single currency) since 2004. In addition to prudent fiscal policies, the Republic's strong banking sector was an important underlying factor in maintaining a healthy fiscal position. Although many countries had intervened in and supported their respective banking sector with government financing, there was no need to take any such measures in Turkey due to the nature of banking regulations implemented before the global financial crisis. Considering these developments, the turmoil in the EU sovereign debt market has not had any material impact on the Republic's public finances or economy due to the Republic's strong fiscal balance, low debt to GDP ratio and strong banking sector. However, as the EU sovereign debt crisis has spread beyond the euro zone periphery to larger economies, such as Spain, growth in the countries comprising the euro zone has significantly decreased, especially in Germany, Turkey's largest export partner. Additionally, many EU countries are implementing austerity measures that may adversely impact growth in these countries. Given the strong economic and political ties between the Republic and the EU, any material deterioration in the EU economy or any material deterioration in market conditions due to the uncertainties arising from problems in the EU could have negative effects on the Republic's economy or assets.

The Republic took measures to combat the national and global financial crisis, such as reducing private consumption tax for cable, wireless, and mobile services; increasing short-term employment benefits; giving motor vehicle tax exemption to cars more than 30 years old; and introducing tax incentives to the companies for certain investments in certain regions. These measures were published in the Official Gazette on February 28, 2009 (No. 27155). The tax exemption for cars over 30 years old was extended until December 31, 2011 (published in Official Gazette on August 1, 2010; No. 27629).

A stimulus package including a value added tax cut on certain houses and a private consumption tax cut for home appliances and certain types of automobiles was published in the Official Gazette on March 16, 2009 (Law No. 27171; Council of Minister's Decision No. 2009/14802). Both tax reductions were initially effective until June 15, 2009, and were then extended until September 30, 2009 (Council of Minister's Decision No. 2009/15081, published in Official Gazette No. 27260). A Council of Ministers decision (No. 14803) regarding the reduction of Resource Utilization Support Fund ("RUSF") levied on consumer credits from 15% to 10% was also published in the same Official Gazette. RUSF was increased by another 15% on October 28, 2010 (Council of Minister's Decision No. 2010/974, published in Official Gazette No. 27743).

A package including value added tax cuts levied on the sale of real estate, electronic, furniture and industrial machines was published in the Official Gazette on March 29, 2009 (No. 27184). This package extended to, among others things, automotive components, telephone equipment and certain types of furniture with the Council of Minister's Decision No. 2009/14881 which was published in the Official Gazette on April 14, 2009 (No. 27200). The package was valid from March 30, 2009 to July 30, 2009.

On June 4, 2009, the Government announced a new stimulus package that included investment incentives, certain measures to enhance employment and a new credit guarantee fund for small and medium-sized enterprises. On June 18, 2009, Law No. 5909, which enables the Turkish Treasury to transfer up to TL 1 billion of resources to the "Credit Guarantee Fund," was approved by Assembly. Law No. 5909 and was published in the Official Gazette on June 24, 2009 (No. 27268). The purpose of this law is to ensure that the Credit Guarantee Fund is adequately capitalized. The burden of the various stimulus packages on the budget is estimated to be approximately 2.1% of GDP in 2009 and 1.9% of GDP in 2010.

An employment package of employment incentives was published in the Official Gazette (No. 26887) on May 26, 2008. According to this package, starting from May 2008, the employer's share of social security premiums of young and women workers who are working pursuant to an employment contract and satisfying certain conditions, will be paid from the Unemployment Insurance Fund for 5 years with decreasing ratios, and the time frame for benefiting from this incentive was extended for one year on February 28, 2009 (published in Official Gazette No. 27155). With the Law No. 6111 (published in the Official Gazette on February 25, 2011; No. 27857), the coverage and the utilization period of such employment incentives were broadened. This incentive is available up to 54 months for men between 18 and 29 and women over 18 from the date of hire and up to 30 months for men over 29 from the date of hire according to such law.

GROSS DOMESTIC PRODUCT

Table 1

	Gross Domestic Product				
	2010	2011	2012	2013	2014
At constant 1998 prices					
GDP (millions of TL)	105,886	115,175	117,625	122,556	126,128
GDP (at current prices)	1,098,799	1,297,713	1,416,798	1,567,289	1,747,362
Turkish Lira/US dollar (annual average)	1.500	1.670	1.793	1.902	2.187
GDP (at current prices, millions of dollars)	731,608	774,188	786,283	823,044	799,001
Population (mid-year, in thousands)	73,142	74,224	75,176	76,055	76,903
Per capita GDP (at current prices, in dollars)	10,003	10,428	10,459	10,822	10,390

Source: TURKSTAT

The Turkish economy experienced robust growth between 2002 and 2007, before the negative effects of the global financial crisis weighed on Turkish industrial production. Economic growth was mainly driven by total consumption and fixed capital investments on the demand side as well as service and industrial sectors on the production side. Improved consumer and business confidence along with reduced interest and inflation rates reflected the sound macroeconomic fundamentals of this period. Also, strong growth rates, lower real interest rates and primary surpluses contributed to the reduction of the general government debt stock. However, during the 2002-2007 period current account deficits increased.

On March 8, 2008 the TURKSTAT announced a revision to the national accounts. Following this revision, GNP figures would no longer be published as of the third quarter of 2007.

In 2009, the negative effects of the global financial crisis were felt markedly on the Turkish economy as was the case for other advanced and emerging market economies. The global financial crisis affected the Turkish economy in four areas, namely i) trade, ii) external resources, iii) credit and iv) expectations. Uncertainty created by the global financial crisis, an economic recession in the Republic's important foreign trade partners and contraction in domestic and external financing facilities led to a deteriorating economy. The most drastic effect of the global crisis was realized in the first quarter of 2009, when the Turkish economy contracted by 14.7%. Although contraction in economic activity continued in the second and third quarters of 2009 over the same period of the previous year, the pace of economic contraction was lower. In order to lessen the adverse effects of the global crisis on the economy, a series of expenditure and revenue measures were implemented starting from mid-2008. In addition to this, expansionary monetary policy by the Central Bank eased concerns in the financial markets. With the help of these policy measures and improving international risk perception, the economy grew by 5.9% in the last quarter of 2009. The Turkish economy displayed the most rapid recovery among OECD countries. With the strong growth rate in the last quarter, economic contraction in 2009 was realized as 4.8%.

In 2010, the Turkish economy showed continued signs of recovery from the global financial crisis. The gradual decrease in interest rates and inflation played a major role in such recovery. The value added of the agricultural sector, industrial sector and services sector increased by 2.4%, 13.0% and 8.5%, respectively. The share of these sectors in GDP was 9.5%, 21.7% and 68.8%, respectively. The GDP growth rate was realized as 9.2% in 2010 which marks the highest growth rate of GDP since 2004.

In 2011, in spite of the worsening economic conditions for many countries in Europe, notably in the first half of the year, the economy grew at a strong pace, mainly driven by credit expansion and favorable external funding conditions. In the first half of 2011, value added of the agricultural sector, industrial sector and services sector increased by 7.5%, 11.9% and 10.5% respectively, and GDP growth rate was 10.8%. However, such an increase in the domestic economy raised concerns for a potentially large current account deficit. Therefore, the CBRT and BRSA took cautionary measures against robust credit growth in order to cool down the economic activity and to shrink the current account deficit. In the second half of 2011, effects of those measures slowed down the pace of growth and the GDP growth rate was 7.0%. At the end of 2011 the sectors' growth rates were recorded as 6.1%, 9.7% and 9.0% respectively and the annual GDP growth rate was 8.8% which indicate strong economic activity in spite of measures taken. In 2011, agriculture, industrial sector and services sector accounted for 9.0%, 22.5% and 68.5% of GDP respectively.

In 2012, the slowdown in the pace of growth of economic activity continued each quarter. Namely, measures taken in 2011 yielded a gradual decline in domestic demand. Therefore, exports were enhanced through the near and Middle East to circumvent the distress in European markets and the effects of weak domestic demand and to prevent

a sharp decline in GDP growth rate. On the other hand, a new investment incentive program was introduced to stimulate production. However, those efforts did not suffice to support aggregate domestic demand, and it shrank by 1.8%, while net exports grew by 4.0% in 2012. On the production side of the economy, agriculture, industrial sector and services sectors grew by 3.1%, 1.8% and 2.4%, respectively. Thus, the annual GDP growth rate was 2.1%. In 2012, agriculture, industrial sector and services sectors accounted for 8.8%, 21.7% and 69.4% of the GDP, respectively.

In 2013, domestic demand recovered somewhat thanks to increases in both private consumption and public investment expenditures which were recorded as 5.3% and 24.1% respectively. Therefore, growth in net exports declined 2.6% due to the recovery in domestic demand. On the other hand, private investment expenditures did not rise sharply and occurred as 0.5%. On the production side, agriculture, industrial sector and services sectors grew by 3.5%, 3.4% and 5.7%, respectively. High value added rises in services sector mainly stemmed from construction and financial intermediation services sectors. In sum, the GDP growth rate was 4.2% in 2013. Agriculture, industrial sector and services sectors accounted for 8.3%, 21.6% and 70.1% respectively.

In 2014, growth rate of domestic demand declined to 1.1%, mainly caused by sluggish increase in private consumption expenditures which was recorded as 1.4% and the 8.7% decrease in public investment expenditures. On the other hand, private investment expenditures could not rise remarkably and recorded only 0.4% growth. Sluggish domestic demand and depreciation in domestic currency bolstered the growth of net exports somewhat and was recorded as 1.8%. On the production side, agricultural sector shrank by 2.1% due to unfavorable weather conditions. Therefore, crop production shrank by 4.8%. Industrial sector carried on its moderate pace and grew by 3.8%. Capital goods production and energy production were the main leading manufacturing sectors which recorded 5.4% and 4.3% growth rates respectively. On the other hand, mining sector's production growth rate occurred as 7.4% and 5.6% for value added growth rate, which had bolstered the total industrial value added in 2014. Services sector grew by 3.9%, which was mainly fueled by financial intermediation services, professional, scientific and technical activities, education and entertainment activities, which recorded 7.0% and 10.8% growth rates respectively. Agriculture, industrial sector and services sectors accounted for 8.0%, 22.0% and 70.0% of GDP, respectively.

Table 2

Gross Domestic Product

Years	GDP at Current prices (in millions of TL)	Percentage change from prior year (%)	GDP at Current prices (in millions of US\$)	Percentage change from prior year (%)	GDP at Constant prices (in millions of TL)	Percentage change from prior year (%)
2010	1,098,799	15.4	731,608	18.6	105,886	9.2
2011	1,297,713	18.1	774,188	5.8	115,175	8.8
2012	1,416,798	9.2	786,283	1.6	117,625	2.1
2013	1,567,289	10.6	823,044	4.7	122,556	4.2
2014	1,747,362	11.5	799,001	-2.9	126,128	2.9

Source: TURKSTAT

The following table presents the composition of GDP at current prices for the periods indicated:

Table 3

Composition of GDP by Sectors (1)	2010	2011	2012	2013	2014
Agriculture	9.5	9.0	8.8	8.3	8.0
Industry	21.7	22.5	21.7	21.6	22.0
Mining	1.6	1.7	1.7	1.6	1.6
Manufacturing	17.4	18.2	17.4	17.3	17.8
Electricity, Gas, Steam	2.0	1.9	2.0	2.0	1.8
Water Supply	0.7	0.7	0.7	0.7	0.8
Services	68.8	68.5	69.4	70.1	70.0
Construction	4.7	5.0	4.9	5.0	5.1
Wholesale and Retail Trade	12.2	13.4	13.3	13.6	13.5
Transportation	12.4	13.1	13.5	13.5	13.4
GDP Total	100.0	100.0	100.0	100.0	100.0

(1) Financial intermediation services were indirectly measured and tax-subsidies were distributed to sectors with respect to their sectoral weights. Therefore, the sum of agriculture, industry and services sectors' shares equals 100%.

Source: TURKSTAT

The following table presents real growth in output for GDP for the periods indicated:

Table 4

	2010	2011	2012	2013	2014
Agriculture	2.4	6.1	3.1	3.5	-2.1
Industry	12.8	9.7	1.8	3.4	3.8
Mining	4.7	3.9	0.8	-3.4	5.6
Manufacturing	13.6	10.0	1.7	3.7	3.7
Electricity, Gas, Steam	7.6	9.0	3.4	1.3	4.1
Water Supply	4.8	6.5	2.7	4.7	10.8
Services	8.5	9.0	2.4	5.7	3.9
Construction	18.3	11.5	0.6	7.4	2.2
Wholesale and Retail Trade	13.6	11.2	0.0	5.1	1.8
Transportation	11.0	10.4	2.0	3.9	2.8
GDP	9.2	8.8	2.1	4.2	2.9

Source: TURKSTAT

PRINCIPAL INDUSTRIES

Turkey has a well-developed and increasingly diversified industrial sector. Since 1995, industrial production has increased primarily as a result of the expansion of domestic demand since the second quarter of 1995. In addition, decreased import costs as a result of the Customs Union with the EU and an increase in investment contributed to the rapid growth of industrial production.

As the economy experienced the effects of the global financial crisis, total industrial production and manufacturing industry production in 2009 decreased by 9.9% and 11.3% respectively and industrial sector's value added in GDP decreased by 6.9%. In parallel to these developments, the manufacturing industry capacity utilization rate decreased by 10.2% compared to 2008 and was realized at 65.0% on average in 2009. However, seasonal and calendar adjusted industrial production tended to increase from the beginning of April 2009. In 2009, the industrial sector accounted for 20.3% of total civilian employment.

In 2010, the industrial sector's value added increased by 13.0%, in line with the domestic economy's continued recovery from the global financial crisis. Total industrial production and manufacturing industry production increased by 12.8% and 14.5%, respectively, in 2010.

The industrial sector value added increased by 9.7% in 2011. Total industrial production and manufacturing industry production increased by 10.1% and 10.5%, respectively. The manufacturing sector capacity utilization rate was 75.4%.

In 2012, the slowdown in the economic activity was reflected in industrial sector as well. Total industrial production and manufacturing production increased by 2.5% and 2.3%, respectively, while value added of industrial sector was 1.8%. The manufacturing sector capacity utilization rate was 74.2%.

In 2013, thanks to recovery in the domestic economy, industrial production and manufacturing industry production rose by 3.0% and 4.0%, respectively, and the capacity utilization rate was 74.6%. Value added in industry increased by 3.4% in 2013.

In 2014, industrial sector carried on its moderate pace. Industrial production and manufacturing industry production rose by 3.6% and 3.2%, respectively, and the capacity utilization rate was 74.6%. Value added in industry increased by 3.8% in 2014.

The following table presents industrial output for selected products for the periods indicated:

Table 5

	2010	% Change 2011	2012	2013	10/09	11/10	12/11	13/12
Hard Coal	803	840	876	818	14	5	4	-7
Lignite	4,980	6,330	6,816	6,246	24	27	8	-8
Natural Gas	301	327	373	348	-11	9	14	7
Iron Ores	624	882	1,201	1,267	35	41	36	6
Lead, Zink, Tin Ores	83	284	407	566	295	242	43	39
Other Non-Iron Metal Ores	998	1,112	1,501	1,152	43	11	35	-23
Marble and Building Stones	1,080	1,402	2,100	2,681	79	30	50	28
Limestone and Gypsum	401	497	538	606	3	24	8	13
Granules and Pebble Stones	1,020	1,558	2,061	3,391	26	53	32	65
Other Minerals	640	922	822	1,236	60	44	-11	50
Beef (Fresh or Cooled)	1,679	1,720	2,755	2,652	97	2	60	-4
Poultry (Fresh or Cooled)	4,896	5,675	6,719	6,840	23	16	18	2
Cigarette	2,717	2,944	3,179	3,567	-14	8	8	12
Cotton Yarn	5,827	7,852	7,706	8,292	54	35	-2	8
Cotton Weaving Fabric	3,969	5,287	5,896	6,723	17	33	12	14
Rough Aluminum	567	836	797	766	89	47	-5	-4
Tractor (37 kw < engine power < 59 kw)	474	817	610	897	—	72	-25	47
Automobile (1500 cm3 cylinder volume 3000 cm3)	9,902	12,435	11,299	12,084	27	26	-9	7
Tankers	205	61	98	—	-85	-70	61	—

Source: TURKSTAT

Note: All of industrial output is described as production values. 2014 data is not yet available.

ENERGY

Geographically, Turkey is in close proximity to 72% of the world's energy resources. Thus, it forms a natural energy bridge between the source exporting countries and energy consumer markets and it stands as a key country in ensuring energy security through diversification of supply sources and routes. Therefore, considerations that have gained increased significance in the world today.

Turkey imported 70% of its total energy consumption in 2010 which increased to 72% in 2011 and 73% in 2012 and 2013.

Over the last 3 years, the total amount of oil imported has decreased from 19.5 million to 18.1 million tones. In 2013, net petroleum imports constituted 25% of gross domestic energy consumption. In addition, in 2013, Turkey imported 20.1 million metric tons of oil equivalent of coal and 37.3 million metric tons oil equivalent of natural gas.

In the last five years, Iran has been the major exporter of oil to Turkey, but this has decreased as of the end of 2012. Dependence on oil from Russia has also been decreasing steadily. Currently, Iraq is the primary exporter of oil to Turkey.

The following table presents Turkey's oil imports by source countries for the years indicated:

Table 6

Oil Imports (million tons)

	2010	2011	2012	2013	2014
Iraq	2	3	3.7	6.3	5.7
Iran	7.3	9.2	7.6	5.5	5.5
Libya			1	0.6	0.1
Saudi Arabia	1.9	1.9	2.8	2.8	2.1
Russia	3.3	2.1	2.1	1.5	0.6
Syria	0.4	0.2			
Azerbaijan			0.2	0.1	
Georgia				0.4	1.8
Kazakhstan	1.8	1.1	1.4	1.6	1.6
Italy	0.1	0.1	0.3	0.2	
Others			0.4		0.7
Total Crude Oil Imports	16.9	18	19.5	19	18.1
Petroleum Products Imports	13.9	9.1	10	13	14.8

Source: Energy Market Regulatory Authority (EMRA)

Energy development and power generation were priority areas for public investment. In particular, in the second half of 1970s Turkey embarked on a power and irrigation project (known as "GAP") in Southeastern Anatolia, and Turkey is continuing to develop hydroelectric sources. The GAP project region covers an area of 27,340 square miles, which corresponds to 9.5% of the total area of Turkey. GAP is a combination of 13 major installations primarily for irrigation and hydroelectric power generation. The project includes the construction of 22 dams and 19 hydroelectric power plants on the Euphrates and the Tigris rivers and their tributaries. It is planned that upon completion of GAP, approximately 1.8 million hectares (4.5 million acres) of land will be irrigated, and its power generating capacity will be approximately 7,500 MW (megawatt). As of December 31, 2014, the installed capacity of GAP hydropower plants in operation was 6,079 MW. In addition, as of December 31, 2014, approximately 23.6% of the total irrigation was completed, 9.5% was under construction and 66.9% was at the planning and final design level. The total cost of GAP is expected to be U.S.\$24.5 billion (excluding expropriation and overhead costs)

Market Reform and Restructuring

Turkey has achieved significant progress in establishing competitive market structures in the energy sector by increasing overall economic efficiency and encouraging new entry and investments in such sector since 2001. The Energy Market Regulatory Authority ("EMRA"), established in 2001, regulates the electricity, natural gas, petroleum and liquefied petroleum gas ("LPG") markets pursuant to the provisions of the Natural Gas Market Law and Electricity Market Law. Independent market regulation and supervision provided by EMRA is intended to ensure a sufficient supply of quality, low cost energy in a reliable manner.

Natural Gas

Natural gas has been used extensively for power generation in Turkey since the late 1980s. Turkey is increasingly utilizing natural gas, both from its own reserves and from abroad, having established long-term purchase contracts with the Russian Federation, Algeria, Nigeria, Iran and Azerbaijan and also buys spot liquefied natural gas (“LNG”) from the market during the winter season in order to maintain a supply-demand balance. Turkey has very limited domestic gas reserves and national gas production represents approximately 1% of the total domestic demand. Consequently, nearly 99% of natural gas demand is satisfied by import. The Petroleum Pipeline Corporation of Turkey (“BOTAS”) is Turkey’s main natural gas importer. At present, BOTAS has 9 long-term sale and purchase contracts with 6 different supply sources. In 2014, primary natural gas supply amounted 48.7 billion cubic meters (bcm). By the end of 2014, the breakdown of consumption was 48.12% electricity production, 25.40% industry and 19.10% households, government and trade offices 5.82%. Distribution is carried out by local distribution companies. As of the end of 2014, 69 distribution zones were supplied with natural gas. Recent analysis suggests that natural gas demand will increase parallel to the growth expected in primary energy demand. Forecasts currently indicate that the demand for natural gas will reach 61 bcm in 2020.

In 2014, Turkey imported 26.9 bcm of natural gas from the Russian Federation, 8,9 bcm of natural gas from Iran and 6,1 bcm of natural gas from Azerbaijan. Turkey also imported 4.1 bcm and 1.4 bcm of natural gas from Algeria and Nigeria, respectively in LNG form. On the other hand, in 2014 Turkey also imported spot LNG from countries such as Qatar, Norway, Spain, Trinidad Tobago and Nigeria.

As a consequence of the three year negotiations being carried out between Turkey and Azerbaijan, the agreement for gas purchase and transmission from Azerbaijan, within the scope of Trans Anatolian Gas Pipeline (“TANAP”) Project, was signed on October 25, 2011. According to the agreement, Turkey will purchase annually 6 bcm Shah Deniz Phase 2 gas starting from 2018. The Shah Deniz natural gas production of Azerbaijan will be transmitted to Europe by this project.

Furthermore, on December 1, 2014, Russian Federation President Putin and proposed an offshore pipeline (with a capacity of 63 bcm/a), Turkish Stream, planned to cross Black Sea to reach Turkish territories.

Turkey’s domestic natural gas transmission system is approximately 12,900 km in length. By the end of 2014, the number of firms with a distribution license reached 69. The Natural Gas Market Law was enacted on May 2, 2001 to foster competition in the natural gas sector. Pursuant to this law, the BOTAS monopoly structure will be gradually decreased; supply, transmission and distribution activities in the natural gas market will be organized; and current legislation and applications will be harmonized with EU regulations.

Since the enactment of Natural Gas Market Law in 2001, which aimed to liberalize Turkish natural gas market, crucial steps have been taken to transition to a competitive natural gas market in Turkey. In 2012, EMRA Board rendered a decision that paved the way for private sector companies to import natural gas from Iraq. The Board Decision allowed the private sector applications for natural gas import license. As a result, one company obtained an import license in September 2013. In July of 2012, EMRA Board rendered a decision relating to natural gas import from Russia via Malkoçlar Entry Point for 6 bcm/year. According to this decision, the private sector companies were allowed to submit applications to obtain import licenses, until August 2012. Four applicants ultimately obtained natural gas import licenses. These private companies, began importing natural gas on January 1, 2013. By 2014, the market share of BOTAS has decreased to 80% of the total consumption.

In December 2012, EMRA Board decided that all customers should be eligible to choose their supplier. This decision was reinforced with a new EMRA Board decision taken in December 2014 decreasing the eligibility threshold for the household customers to 75,000 m3. In October 2013, EMRA prepared and published the model agreements for natural gas transportation and delivery services in distribution regions. This development will provide transparency to supplier switching process and functioning of the market.

Amendment of Natural Gas Market Law was sent to the Grand National Assembly in August 2014. It is aimed to enhance liberalization and competition of natural gas market and expected to contribute to the process of liberalization of Natural Gas Market within the Draft Natural Gas Market Law.

Restructuring the Electricity Sector

Significant steps have been made towards a fundamental restructuring of the electricity sector. The Electricity Market Law came into effect in March 2001, with the objective of developing a transparent and competitive electricity market, achieving stability of supply, and ensuring high quality and inexpensive electricity. The most important aspect of the restructuring is the central role of competition in ordering the market. In March of 2013, the new market law governing the electricity market entered into force. The Electricity Market Law (No. 6446) includes new rules and regulations regarding the electricity market to increase transparency and efficiency in the investment environment. These laws provide a framework for establishing institutions and provide the following structural regulations:

- Creates and maintains the EMRA, as an independent agency, governed by the Energy Market Regulatory Board, which is responsible for regulatory functions such as licensing, supervising, tariff setting and market monitoring.
- Requires participants in defined market segments (generation, transmission, distribution, wholesale (trading- and retail)) to be licensed by the EMRA. It also requires that separate accounts be maintained for each licensed activity and location, each with specific rights and obligations.
- Requires bilateral contracting between market participants, thus implying a residual balancing mechanism to operate the transmission system; with compulsory pool type wholesale markets excluded.
- Provides competition, since March of 2003, for consumers directly connected to the transmission system or with annual consumption of more than 9 Gigawatt Hour (GWh). This eligibility threshold was re-determined in January 2009 as 0.48 GWh, in January 2010 as 100,000 Kilowatt Hour (kWh), in January 2011 as 30,000 kWh, in January 2012 as 25,000 kWh, in January 2013 as 5,000 kWh, in January 2014 as 4500 kWh and finally in January 2015 as 4,000 kWh (85.04% theoretical market openness). The Electricity Market and Security of Supply Strategy paper, dated May 2009, which was prepared under the coordination of the Ministry of Energy and Natural Resources ("MENR") with participation and contributions by relevant stakeholders, provides that the threshold level will be decreased on a regular basis in order to increase market openness rate in electricity consumption. Accordingly, non-household users were fully eligible by the end of 2011, while all other users will become fully eligible by the end of 2016.
- Provides for non-discriminatory and regulated third party access to the electricity grid and distribution system.

Several models such as the Build-Operate-Transfer (the "BOT Model"), the Build-Own-Operate (the "BOO Model") and the Transfer of Operating Rights (the "TOOR Model") were developed previously to provide effective means to attract foreign and domestic investment.

As of the end of 2014, There are 20 plants in operation based on the BOT Model with total capacity of 2,335.8 MW, whereas approximately 6,101.8 MW of capacity was built through the BOO Model. 55 plants comprising a total of 940.6 MW of capacity are producing electricity based on the TOOR Model. However, the desired outcome was not obtained through application of these models and they were abolished pursuant to the provisions of the new Electricity Market Law, which envisages a competitive electricity market.

Auto-production is regulated by Law No. 3096 by Decree No. 85/9799 which allows MENR to grant permission to industrial plants, residential complexes with more than 5,000 dwellings, five star hotels, industrial zones, universities and municipal institutions to generate their own electricity. As of the end of 2014, approximately 203 auto-producing plants generated an annual power output corresponding to 2.0% of Turkey's total electricity generation and 541 Independent Power Producers (IPP) generated 115.4 TWh, which constituted approximately 46% of Turkey's total electricity generation in 2014. With the amendments in Law Nr. 6446, auto-production license was abolished and accordingly all of these licenses will be changed into generation licenses.

Turkey consumed 255.5 TWh of electricity in 2014. Installed capacity has surpassed 71.5 GW as of July 2015 and the increase of electrical energy demand has been realized as 3.7% in 2014. Electricity demand is projected to increase annually between 5% and 6% until 2020.

With the enactment of the Electricity Market Law, incentives for the development of renewable energy have been promoted. In this context, a separate law was enacted in May 2005 to promote renewable-based electricity generation within the market. Law No. 5346 introduced feed-in tariffs and purchase obligations for distribution companies from certified renewable energy producers. However, the feed-in tariff system was only a transition

scheme and market-based mechanisms are expected to be used eventually. Supporting mechanisms such as feed-in tariffs, purchase obligation, connection priorities, lower license fees and exemptions and various practical conveniences in project preparation and land acquisition are defined in the law, in conformity with EU legislation and practice. These mechanisms have facilitated the development of power plants based on renewable energy sources particularly small hydro and wind plants. In this context, a crucial number of investors applied to EMRA to for licenses especially for the small hydro and wind plants.

With the Bylaw on Competition for the Applications of the Wind and Solar Power Plant Projects (Official Gazette: December 6, 2013, No. 28843), principles and procedures related to applications for projects to be connected to the grid are determined. Within the context of this Bylaw, eligibility criteria are determined by the declared RES (Wind Power Electricity Generation Plant) contribution margin to be paid per MW of electricity.

According to the Amendment to Law on Utilization of Renewable Energy Resources for the Purpose of Generating Electrical Energy (No. 6094) (Official Gazette: January 8, 2011, No. 27809), a new support structure was introduced with varying prices for different renewable based electricity generation, namely: 7.3 US cents per kWh for hydro and wind, 10.5 US cents per kWh for geothermal and 13.3 US cents per kWh for solar and biomass (including waste gases). In addition, MENR issued the By-law on the Domestic Production of the Equipment Used in Facilities Producing Electrical Power with Renewable Energy Resources published in the Official Gazette dated June 19, 2011 (No. 27969) to provide certain support of between 0.4 to 3.5 US cents per kWh to power plants for the utilization of domestically manufactured technical equipment. Additionally, MENR also issued the By-law on Electricity Generating Facilities Based on Solar Power which identifies the standards, testing and audit methods for equipment used in solar power plants in the Official Gazette dated June 19, 2011 (No. 27969). Moreover, the EMRA issued the By-law on Production of Electricity in Electricity Market without License in the Official Gazette dated July 21, 2011 (No. 28001) which identifies methods and principles to be applied for cogeneration facilities that produce electricity for its own needs and renewable energy based facilities with installed capacity below 500 kW and micro cogeneration facilities which are all exempted from licensing requirements. The new Electricity Market Law (No. 6446) aims to increase the amount of generation plants based on renewable resources, increasing the limit of the unlicensed installed capacity to 1 MW. This law also defines methods and principles for unloading excess electricity into the system. Similarly, EMRA issued the By-law on Certification and Promotion of Renewable Energy Sources which identifies methods and principles for the certification of renewable energy facilities and the establishment and operation of such facilities (Official Gazette dated October 1, 2013 (No. 28782).

By the end of 2014, the share of renewable energy sources in total electricity generation was 21.0% and total wind capacity reached 3.629 GW.

Through the new Electricity Market Law, a new market activity named “market operation” has been introduced. “Market operation” involves the operation of organized wholesale electricity markets, and handling financial settlement matters. Market operation, which is currently conducted by a department under TEİAŞ called Electricity Market Financial Settlement Center (“PMUM”), will, in the future, be conducted by Energy Markets Operation Company (“EPIAŞ”), to be established as a public law entity operating under a market operation license to be issued by EMRA.

On June 5, 2009, a U.S.\$500 million loan and a U.S.\$100 million loan (Clean Technology Fund) was provided by the World Bank in order to encourage investors to construct generation plants with renewable energy resources. Such investors, who will construct power plants using hydro, wind, solar, geothermal and other renewable energy resources, can apply for such loan through the Turkish Industrial Development Bank and Turkish Development Bank.

The Law of Geothermal Resources and Spring Waters which is Turkey’s other renewable energy program was enacted on June 13, 2007. This law aims to promote investigation, exploration, development, production, and protection of geothermal resources in a sustainable and effective manner. Integrated use of geothermal, re-injection of geothermal after usage for the efficiency and protection of environment are regulated under this law.

Privatization of the bulk of the publicly held installed capacity in the power generation sector was initiated in 2011. Transmission ownership and market operation functions will remain under government control through the Turkish Electricity Transmission Co. (“TEİAŞ”), as a result of the nature of the transmission activity.

Efforts to increase private sector participation in the power sector are a critical issue in the current stage of the ongoing transition to a fully competitive market framework. The Turkish Electricity Distribution Company (“TEDAS”) was restructured in 2006 and divided into 21 distribution companies. Retail companies unbundled from distribution companies are the sole suppliers to ineligible consumers.

The electricity sector in Turkey was dominated by three state-owned companies, covering generation, trading and transmission activities: Turkish Electricity Transmission Corp. (TEİAŞ), Electricity Generation Corp. (EÜAŞ) and Turkish Electricity Trading and Contracting Corp. (TETAŞ). As of end of 2014, the share of publicly held installed capacity stayed below privately held installed capacity due to continuous and increasing private investments in the sector. Moreover, about 69% of electricity generation capacity was held by the private sector in 2014. In 2008, the Privatization Authority had privatized 9 small power plants with a total capacity of 140 MW for US\$10 million. The Privatization Agency is in the process of privatizing the remaining 55 plants. 28 plants were privatized in 2011, 17 plants were privatized in 2013 and 10 plants are in the privatization progress. Preparation work to privatize the remaining 27 hydro is being undertaken with the coordination of MENR. Ten thermal power plants (Kangal, Seyitömer, Hamitabat, Kemerköy, Yeniköy, Yatağan, Çatalağzi, Orhaneli, Tunçbilek and Soma B) were completely privatized at the end of June 2015. The remaining plants are expected to be privatized in the next few years.

While EÜAŞ, a state-owned company, held approximately half of all installed capacity in 2011, its share in total installed capacity reduced 31% by the end of 2014. Independent power producers owned more than 56% of total capacity in 2014. BOO, BOT and TOOR power plants (with long term purchase agreements with TETAŞ) had 13% of capacity.

Facing an ever-increasing energy demand and challenges related to climate change, nuclear energy has once more moved up on the agenda of several countries including Turkey. With a growing population and a rapidly expanding economy, Turkey's dependence on fossil fuel resources from external suppliers presents a substantial challenge to its energy security. Turkey is currently looking into the possibilities of diversifying its energy resources both in type and origin to meet the demand. Nuclear energy is one of viable options in this regard. Turkey diligently takes all necessary precautions in generation of nuclear energy. In Nuclear Power Plant projects of Turkey, state-of-art technologies and methods will be utilized to obtain the highest level of nuclear safety, taking in to account the latest developments in Fukushima Daichi Nuclear Power Plant.

The Law on Construction and Operation of Nuclear Power Plants and the Sale of the Energy (Law No. 5710) was printed in the Official Gazette on November 21, 2007 and sets forth rules for the construction and operation of nuclear power plants and the sale of the energy generated. The main purpose of this law was to support investments in nuclear power plants in Turkey. The law introduced a bid procedure for suppliers who want to enter into an energy purchase agreement with the state-owned wholesale company TETAŞ and obtain a generation license for a maximum period of 15 years. The purchased amount was distributed to legal entities having wholesale and retail licenses with bilateral agreements. This incentive mechanism was considered an important tool for potential investors to take part in nuclear power plant projects.

A bylaw regarding the principles, procedures, and incentives for contracts which will be entered into within the context of the Law on the Construction and Operation of Nuclear Power Plants and the Sale of Energy was printed in the Official Gazette on March 19, 2008. Immediately thereafter, an announcement concerning the construction and operation of nuclear power plants and the sale of such energy to TETAŞ was published in the Official Gazette on March 24, 2008. According to the law and bylaw, TETAŞ held the tender on September 24, 2008 and there was only one bidder. TETAŞ subsequently cancelled the tender.

In order to introduce nuclear power into the generation portfolio, projects are being carried out at bilateral level. An intergovernmental agreement (IGA) between the Russian Federation and Turkey concerning cooperation in the area of construction and operation of the nuclear power plant on the Akkuyu Site in Turkey was ratified and came into force on December 27, 2010 (OJ Number 27721). The Akkuyu site has been allocated to the project company established under the terms of the agreement. The IGA establishes build own operate (BOO) model where the project company is responsible for construction and operation of the Akkuyu NPP. On June 25, 2015, EMRA granted Akkuyu NPP a preliminary generation license which is effective for 36 months. It is expected that a construction license application will be submitted in November 2015 following the approval of the Site Parameters Report by Turkish Atomic Energy Authority ("TAEK").

An IGA between Turkey and Japan for construction and operation of the second nuclear power plant and development of the nuclear industry in Turkey was ratified and came into force on May 23, 2015 (OJ Number 29364). This IGA establishes a public private partnership (PPP) between Japanese Consortium (MHI, Itochu and GDF Suez) and EÜAŞ. Sinop site has been designated as the potential candidate for the second nuclear power plant. Site evaluation studies in Sinop continues.

A draft nuclear energy law has been prepared in order to separate the promotional and regulatory activities of the Turkish Atomic Energy Authority by establishing a new nuclear regulatory authority and internalizing the provisions of the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management which awaits accession by the Turkish Parliament. A separate draft law on Third Party Liability in the Field of Nuclear Energy has been prepared with the purpose of internalizing the provisions of the Paris Convention on Third Party Liability in the Field of Nuclear Energy together with the amendments and supplements thereto from time to time.

Turkey acknowledges the need to reduce energy dependency and to improve energy efficiency. The Energy Efficiency Law (Law No. 5627) was enacted and published in the Official Gazette on May 2, 2007. In this context, several programs aimed at improved energy efficiency are ongoing, while legislative studies are underway with the objective of enhancing the efficient use of energy and energy resources so as to reduce the burden of energy costs on the economy. The Energy Efficiency Strategy Paper (published in the Official Gazette on February 25, 2012, No. 28215) was published in order to increase the effectiveness of energy efficiency studies which had occurred to date and to set concrete objectives for such studies, with an aim to reduce primary energy use at least 20% by 2023.

Similarly, according to the “2010-2014 Strategic Institutional Plan” of the MENR, reducing the energy use of the Turkish economy has been identified as one of its important objectives. The Plan sets to improve energy efficiency and reduce primary energy use by 20% by 2023, compared to use in 2008. Furthermore, in order to increase efficiency and to raise production capacity, rehabilitation and modernization of publicly held power plants by the use of new technologies is to be completed by the end of 2014 according to the plan.

The Ministry of Environment and Urbanization issued a Bylaw on Energy Performance of Buildings (Official Gazette dated December 5, 2008; No 27075) effective as of December 5, 2009 and revised in April 2010 which requires new buildings to meet minimum performance criteria and standards concerning architecture, heat insulation, heating and cooling systems and electrical wiring. According to this regulation an “Energy Performance Certificate” is required as of January 2011 which indicates energy expenses and CO2 emissions for new buildings and buildings to be sold or rented and ranks a building in different classes: A-D. A construction license will not be granted to new buildings having less than a “D” class certification. Furthermore, central heating is required for new buildings having an area of more than 2000 m².

According to Law No. 4703, Preparation and Implementation of Technical Legislation on Products, the Regulation on Eco Design Requirements for Energy Related Products was published in the Official Gazette No. 27722 on October 7, 2010 by a Decree of Council of Ministers. Under this law, the implementing communiqués for different product groups will be published and implemented by relevant public authorities (for example, communiqués for appliance, motor and lighting manufacturers will be published and implemented by the Ministry of Industry and Trade).

The Electricity Market and Security of Supply Strategy Paper was approved by a High Decision Council on May 18, 2009. This paper sets forth the strategy to develop a well-functioning market in electricity sector by drawing a road map for essential elements for ensuring security of supply and enhancing competitiveness in the rapidly growing electricity market of Turkey. The strategy’s main focus is on security of supply, including a capacity mechanism and targets for utilizing domestic sources for power generation. The strategy also covers market design and includes a road-map for implementing a new wholesale market regime.

According to the strategy paper, electricity produced from renewable sources when compared to all forms of electricity generation is projected to be at least 30% by 2023. In this scope, remaining hydro and indigenous coal potential which could be exploited technically and economically will be utilized to generate electricity energy by 2023. Installed wind power capacity is estimated to reach 20,000 MW by 2023. Utilization of geothermal and solar resources will be extended significantly in electricity generation. Introduction of nuclear power to the generation mix is also envisaged by 2020. The strategy paper states that new interconnection lines will be set up and the capacity of existing interconnection lines will be upgraded so as to advance electricity import and export potential with neighboring countries.

Electricity Interconnections

Turkey has the following existing interconnections with neighboring countries that are currently in use, and import/export figures are as follows:

- Bulgaria: There are two 400 kV separate interconnection lines between Hamitabat (Turkey) and Maritsa East (Bulgaria), and each of them currently operate in synchronous parallel mode with the ENTSO-E Continental Europe Synchronous Area (CESA). 4,680 GWh of energy was imported from Bulgaria to Turkey and nearly 0.2 GWh of energy was exported from Turkey to Bulgaria through the Hamitabat-Maritsa East interconnection line in connection with trial synchronous parallel operation between the Turkish power system and ENTSO-E CESA in 2014.

Experts in Transmission System Operation in Turkey, Romania and Bulgaria have formed a Study Group, which will search for alternative ways to achieve electricity transfers between the three countries through an overhead transmission line. A preliminary report relating to data of the three countries was discussed in a Study Group meeting on October 10, 2013, in Istanbul.

- Azerbaijan (Nahcivan): There is a 154 kV interconnection line between Babek (Nahcivan/Azerbaijan) and Iğdir (Turkey) which is currently operating in import in isolated region mode. 265.7 GWh of energy was imported from Nahcivan to Turkey and 12.6 GWh of energy was exported from Turkey to Nahcivan at 15-25 MW peak power through the Iğdir-Babek interconnection line in 2014.
- Iran: There are two interconnection lines; one of which is a 400 kV Khoy (Iran) and Başkale (Turkey) interconnection line and currently operating at 220 kV and the other is a 154 kV Doğubeyazıt (Turkey) and Bazargan (Iran) interconnection line, both of which are currently operating in import in isolated region mode. Approximately 2,18 GWh of energy was imported from Iran to Turkey through the Khoy-Baskale interconnection line and 253.2 GWh energy was imported from Iran to Turkey via 154 kV Doğubayazıt-Bazargan interconnection line in 2014.
- Georgia: There is a 220 kV interconnection line between Hopa (Turkey) and Batumi (Georgia) which is currently operating in import in isolated region mode. In addition, construction of the 400 kV interconnection line between Borçka (Turkey) and Akhaltsikhe (Georgia) with a DC back-to-back station in Akhaltsikhe was completed in 2013 and ready for use. Further, construction and construction of a new 154 kV transmission line, between Batumi (Georgia) and Muratlı (Turkey), with a DC back-to-back station at Georgian side is under consideration. 86 GWh of energy was imported from Georgia to Turkey via the Hopa-Batumi interconnection line in 2012. A total of 1,221 GWh of energy was imported through this line between January 1, 2007 and December 31, 2012. A total of 1,171.8 GWh of energy was exported from Turkey to Georgia (Acara) between January 1, 2007 and December 31, 2010.
- Syria: The 400 kV interconnection line between Birecik (Turkey) and Aleppo (Syria), has been offline since October 1, 2012 due to technical problems on the Syria side. However, steps have been taken to increase the amount of energy exchanged between Syria and the back to back station in Şanlıurfa (Birecik TS to 600 MW). A successful interconnection depends on the crisis in Syria ending and the establishment of new relationship with the appropriate institutions.
- Iraq: There is a 400 kV interconnection line between PS3 (Turkey) and Zakho (Iraq) which was being used for export to Iraq in isolated mode, but the use of this line was terminated as of January 25, 2011. However, an Interconnection Operation Agreement was signed between TEİAŞ and the Regional Directorate of Iraq and the Ministry of Electricity on June 10, 2013. As of June 12, 2013, the interconnection line has resumed operation. Installation of a second 400 kV interconnection line between Cizre (Turkey)–Mosul (Iraq), is well underway and the portion of the line within Turkish borders is 130 kilometers in length. Cizre -Border section has been completed but the Mosul - Border section is not and Iraqi authorities have stated that they cannot predict when this section will be completed. 409,8 GWh energy was exported from Turkey to Iraq through PS3 - Karkey (Turkey) - Zakho (Iraq) Interconnection Line in 2014.

Construction of another 400 kV interconnection line between Cizre (Turkey) and Musul (Iraq) is in the tender process. The study for the installation of the section of the line within the borders of Turkey has been started within 2012 and the ongoing studies are expected to be completed in 2015.

- Greece: There is a 400 kV interconnection line between Babaeski (Turkey) and Philippi Neo Santa (Greece) which is currently operating in synchronous parallel mode with ENTSO-E CESA). 173.2 GWh/year of energy was imported from Greece to Turkey and nearly 809.3 GWh of energy was exported from Turkey to Greece through the Babaeski-Neosanta interconnection line in connection with trial synchronous operation between the Turkish power system and ENTSO-E CESA in 2013. A Bilateral Agreement was signed in November 2012 between TEİAŞ and IPTO (“ADMIE”), the independent power system operator of Greece, with respect to the commissioning of a communication channel for providing the real time data exchange realized between the National Load Dispatch Centers located in Ankara and Athens.

EMRA issued the By-law on Electricity Market Import and Export, published in the Official Gazette dated May 17, 2014 (No. 29003), in order to identify rules and exceptions governing the export and import of electricity through interconnections between the national grid and transmission grids of neighboring countries and to determine methods and principles of capacity allocation in international interconnections.

Trial synchronous parallel operation of the Turkish Power System with the ENTSO-E Continental Europe Synchronous Area (“CESA”) began on September 18, 2010. The trial parallel operation will be finalized in 3 sections. The “limited commercial exchange” period, which is the third and last phase, was delayed until the autumn of 2013. On September 4, 2013, ENTSO-E Regional Group Continental Europe (“ENTSO-E RG CE”) Plenary approved the report emphasizing the success of the technical studies carried out by TEİAŞ for ENTSO-E connection. Following the fulfilment of the standards/obligations set down in the ENTSO-E Operation Handbook by TEİAŞ, the “Long Term Agreement” was signed in April 2015, which is a requirement of the ENTSO-E Articles of Association for permanent operation and will make the standards and obligations binding for TEİAŞ. In this regard, Turkish electricity market is a part of the European Internal Electricity Market with its whole actors.

According to the Electricity Market and Security of Supply Strategy Paper, electricity transmission connections with neighboring countries which are not ENTSO-E members were envisaged to be realized at asynchronous parallel (DC) operation method. Until the establishment of the required (DC) facilities to provide the asynchronous operation of the electricity transmission connections with the neighboring countries, electricity exchange must be realized at other connection methods.

Crude oil and natural gas pipelines and pipeline projects

As the energy bridge between the east and the west, Turkey has already completed various regional and inter-regional interconnection projects and promotes certain others in order to meet its own energy demand as well as to remain an important actor in the transportation of hydrocarbons.

As an economically feasible and environmentally protective project for the transportation of crude oil produced mainly in the Azeri-Chirag-Guneshli offshore fields of Azerbaijan, the Baku-Tbilisi-Ceyhan Crude Oil Pipeline is operated under the sponsorship of a group of petroleum companies, collectively BTC Co., formerly known as MEP Participants. BTC Co. is led by BP Exploration (Caspian Sea) Ltd. Other current shareholders include AzBTC, Chevron, Statoil BTC Caspian As, TPAO, ENI, Total, Itochu Oil Exploration (Azerbaijan) Inc., INPEX, ConocoPhillips and ONGC Videsh Limited. The Intergovernmental Agreement among Azerbaijan, Georgia and the Turkey and the Host Government Agreements between the governments of these countries and shareholders of BTC Co., constitute the legal framework of the project.

Since June 4, 2006, the BTC pipeline has operated commercially. As a result of tremendous efforts to complete the pipeline, the first oil reached Ceyhan Marine Terminal (“CMT”) on May 28, 2006 and the first tanker was commercially commissioned on June 4, 2006. This pipeline provides a route to international markets for oil from the Caspian region, primarily from Azerbaijan and the giant ACG field complex in the offshore Caspian. The pipeline route is from the Sangachal terminal in Baku, Azerbaijan via Georgia to the Turkish Mediterranean coast at Ceyhan. The total length of the pipeline is 1768 km and the original capacity is 1 mb/d.

The BTC Pipeline, as the pioneer of the east-west energy hub connecting the energy supplies in the Caspian region and Central Asia with Western markets, has a capacity of 50 million tons of crude oil per annum and is expected to remain operational for 40 years with possible extensions of two subsequent 10 year periods.

Subsequently on December 24, 2011, Turkey and Azerbaijan signed a Memorandum of Understanding concerning the development of a standalone pipeline. The Trans Anatolian Natural Gas Pipeline (TANAP) Project will have minimum 16 bcm/a capacity and will be scalable to accommodate future natural gas volumes originating and transiting from Azerbaijan. The Intergovernmental Agreement and the Host Government Agreement of The Trans Anatolian Pipeline (TANAP) Project were signed on June 26, 2012 and become effective on April 8, 2013. The groundbreaking ceremony of TANAP was held in March 2015 and construction was started in April 2015.

First gas flow is planned at the end of 2018 to Turkey and in 2020 to Europe. TANAP Project is critical to meeting the natural gas demand of both Turkey and Europe. Upon operation, this project would be the first to take gas from the Caspian Sea and transmit it to Europe from Caucasus 6 bcm of the 16 bcm of gas to be taken from the Stage 2 of the Shah Deniz Offshore Gas Field is planned to be used in Turkey and the remaining 10 bcm is planned to be transmitted to Europe through TANAP Project. Thus, Turkey will become a strategic country for European energy supply security.

On May 30, 2014, a signing ceremony of a package of agreements concerning Shah Deniz gas field and TANAP Project was held in Istanbul. The package contains several agreements related to the increase of TPAO's share in Shah Deniz Consortium from 9% to 19% by acquiring all shares of TOTAL, increase of BOTAS's share in TANAP Project Company from 20% to 30% by acquiring 10% of SOCAR's share, transportation of 6 bcm of gas to be purchased by BOTAS from Shah Deniz Phase II via TANAP System. With these agreements, Turkey reaffirmed its commitment to Shah Deniz field and pipeline projects in order to further enhance its supply security and open up the Southern Gas Corridor.

The TANAP Project is designed as the backbone of the Southern Gas Corridor and will contribute to not only the diversification of natural gas sources for Turkey but also European energy supply security. TANAP Project will facilitate the realization of the other projects such as SCPX and TAP within the Southern Gas Corridor.

Once the Southern Gas Corridor is opened by Azerbaijani gas, other gases such as the Turkmen gas originated from Caspian Basin or Iraqi and Iranian gas can also flow through this corridor as well.

In June of 2013, the consortium developing Azerbaijan's Shah Deniz gas field chose the Trans Adriatic Pipeline (TAP) over Nabucco West project. The TAP project, first envisioned more than a decade ago, reflects a European Union push for alternatives to Russian gas imports and is expected to start flowing in 2020. The annual gas transportation capacity of the project is planned to be 10 bcm. However, the design of the pipeline will allow to transport additional gas sources more than 20 bcm/a. The TAP project will collect Azeri gas via Turkey and will start on the border of Turkey and Greece, where it will connect with the TANAP project. TAP will continue onshore, crossing the entire territory of Northern Greece, then pass through Albania to the Adriatic coast. The offshore section of the pipeline will traverse the Adriatic Sea and will connect Italy's gas transportation network in Southern Italy. TAP will be approximately 870 kilometers in length (Greece 545 km; Albania 211 km; Adriatic Sea 105 km; Italy 8 km). TAP is fronted by Norway's Statoil, Swiss company AXPO E.on Ruhrgas of Germany, BP of England, SOCAR of Azerbaijan, Fluxys of Belgium, TOTAL of France and Enagas of Spain.

Iraq is considered an important resource for both Turkey and Europe in respect of oil and gas supply. Turkey is a secure and sustainable route for the exportation of Iraqi oil and gas to the world markets as well as Turkey itself. With political stability in Iraq, such sources could be supplied to Turkey and world markets via Turkey in the future.

On March 28, 2014, a Memorandum of Understanding relating to the Turkey-Bulgaria Interconnector Project was finalized. This memorandum establishes a Joint Working Group in order to prepare a prefeasibility report and action plan for the Project.

At the Turkey-Russia High Level Consultation On Council Meeting, President Putin proposed a pipeline, which would use most of the route of the canceled-South Stream Project via the Black Sea but to turn to Turkey and end up at Turkey-Greece border following the on-shore route. The project is planned to transport 63 bcm/a natural gas to Turkey and Europe. It aims to give gas to Turkey at end 2016 and to Europe at end 2019 following the termination of Russian Federation-Ukraine agreement of natural gas transit through Ukrainian territories.

The following table presents Turkey's energy supply (by resource) for the years indicated:

Table 7

		Coal (2)		Oil		Hydro		Gas		Electricity		Other		Total	
		(mtoe)		(mtoe)		(mtoe)		(mtoe)		(mtoe)		(mtoe)		(mtoe)	
		(1)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Production	2010	17.52	16.0	2.67	2.4	4.45	4.1	0.63	0.6	—	—	7.21	6.6	32.48	29.72
	2011	17.86	15.6	2.55	2.2	4.50	4.0	0.65	0.6			6.66	5.8	32.22	28.15
	2012	17.01	14.2	2.40	2.0	4.98	4.1	0.53	0.4			7.04	5.9	31.96	26.61
	2013	15.45	12.8	2.48	2.1	5.11	4.3	0.44	0.4			8.46	7.0	31.94	26.55
Import	2010	15.92	14.6	36.57	33.5	—	—	34.82	31.9	0.10	0.0	—	—	87.41	80.01
	2011	17.58	15.4	36.09	31.5			36.21	31.6	0.39	0.4			90.29	78.87
	2012	22.43	18.7	37.86	31.5			37.91	31.6	0.50	0.4			98.70	82.18
	2013	20.13	16.7	37.88	31.5			37.35	31.1	0.64	0.5			96.00	79.81
Export(3)	2010	—	—	7.64	7.0	—	—	0.6	0.6	0.17		—	—	-8.39	-7.63
	2011		—	8.24	7.2		—	0.6	0.5	0.31	0.3			-9.15	-7.99
	2012			9.55	8.0			0.5	0.4	0.25	0.2			-10.31	-8.58
	2013	0.01		8.35	6.9			0.56	0.5	0.11	0.1			-9.03	-7.50
Net stock	2010	—	—	—	—	—	—	—	—	—	—	—	—	-0.30	-0.3
	2011	—	—	—	—	—	—	—	—	—	—	—	—	1.10	0.97
	2012													-0.81	-0.67
	2013													-0.64	-0.53
Statistical Error	2010	—	—											-1.90	-1.8
	2011	—	—	—						—	—		—		
	2012													0.56	0.46
	2013													2.01	1.67
Total supply	2010	33.53	30.7	29.22	26.7	4.45	4.1	34.91	31.9	—	—	7.16	6.6	109.26	100.0
	2011	35.84	31.3	30.49	26.6	4.5	4.0	36.90	32.2			6.75	5.9	114.48	100.0
	2012	39.29	32.7	31.20	26.0	4.97	4.1	37.37	31.1	—	—	7.26	6.1	120.09	100.0
	2013	34.66	28.8	33.90	28.2	5.11	4.3	37.63	31.3			8.99	7.5	120.29	100.0

(1) Million Metric tons of oil equivalent. Calorific unit of energy is taken as 860 kcal/10 kWh

(2) Includes coke and petrocok

(3) Includes marine bunkers.

Source: MENR

AGRICULTURE

While agriculture has historically been a very important sector in Turkey, the contribution of this sector to the country's GDP and total employment has diminished in the past few years. Nevertheless, this sector is crucial to the Republic since the agricultural sector employs a significant portion of Turkey's work force, generates most of the income and employment in rural areas, supplies products to many other sectors, and contributes significantly to total exports of the country.

Structural reform has been at the center of all agricultural policy discussions since 1999. The main aims of the initial reform program were to phase out price support and credit subsidies, to withdraw the government from its direct involvement in production, the processing and marketing of crops and to introduce a less distorting support system that is called Direct Income Support (“DIS”) based on land rather than inputs or output.

In 2000, the Government began to implement the Agricultural Reform and Implementation Project (“ARIP”), with the support of the World Bank, to mitigate potential short-term adverse impacts of subsidy removal, to facilitate the transition to efficient production patterns (a crop substitution scheme for tobacco and hazelnut), and to establish a National Farmer Registry (“NFR”) System, each of which would also contribute to harmonize policies with the Common Agricultural Policy of the EU. ARIP was extended in 2006 to include DIS and a new Rural Development Program and a wider set of investment support activities. In 2009, ARIP ended and DIS payments have been replaced by other area based support schemes like fertilizer and diesel supports which are independent of real consumption.

A new Agricultural Law was also enacted in 2006 to implement the Government’s “Agricultural Strategy Paper 2006-10” adopted at the end of 2004, which was intended to bring Turkey’s agricultural policies more in line with those of the EU in addition to institutionalizing the then-newly started DIS payments.

In recent years, support schemes that contribute to productivity have been given special importance. Premium payments especially for oil seeds, area-based supports, animal husbandry supports and rural development supports are among the major schemes in the support program. In 2013, those major support schemes have accounted for 30%, 28%, 31.7% and 5.5% of total support budget, respectively. The distribution of premium payments, area-based supports, animal husbandry supports and rural development supports for the year 2014 are estimated to have constituted 30.8%, 28.8%, 30.5% and 5.1% of the total support budget, respectively.

A new agricultural support strategy is being prepared in order to align with applicable EU standards. Under this strategy, agricultural support payments will be differentiated on area and product base in order to increase competitiveness in the sector and provide stability in farm incomes.

As irrigation investments accelerated with the introduction of the GAP Action Plan (2008-2012), the concentration on regional development action plans increased. A new version of the GAP action plan has been finalized for the period of 2014-2018. In addition, to the revised GAP Action Plan (2014-2018), the KOP Action Plan (2014-2018), the DAP Action Plan (2014-2018), and the DOKAP Action Plan (2014-2018) applicable to other priority regions have also been prepared and implementation thereof has begun. The purpose of these plans is to strengthen the social and economic development of Turkey. The agriculture sector plays a crucial role in these Action Plans to create jobs and incomes, improve the standard of living in rural areas and diminish the regional disparities. The principal objectives of the agriculture sector in these Action Plans are to increase productivity, generate more income and employment in rural areas, and provide sufficient and balanced nutrition to the population.

In 2014, agricultural value added decreased by 2.1%, compared to a 3.5% increase in 2013 (in 1998 prices). This shrinking in the sector mainly stems from the unfavorable climatic conditions. Agriculture accounted for approximately 8.0% of GDP in current prices and 21.1% of civilian employment in 2014.

Although agricultural production in Turkey is generally less efficient than elsewhere in Europe, Turkey is largely self-sufficient with respect to crops. Turkey is a net exporter country in terms of agricultural raw and processed products trade in the world market. Moreover, there have been significant improvements in the quality and productivity of its crops in recent years. These crops, such as barley, wheat, maize and soya, have become more readily marketable.

The following table presents Turkey's agricultural output (by crop) for the years indicated:

Table 8

	Agricultural Output					Percentage Change			
	2010	2011	Annual 2012 (in thousands of tons)	2013	2014	2010/11	2011/12	2012/13	2013/14
Cereal									
Wheat	19,674	21,800	20,100	22,050	19,000	10.8	-7.8	9.7	-13.8
Barley	7,250	7,600	7,100	7,900	6,300	4.8	-6.6	11.3	-20.3
Maize	4,310	4,200	4,600	5,900	5,950	-2.6	-9.5	-28.3	-0.8
Pulses									
Lentils (red)	422	385	410	395	325	-8.8	6.5	-3.7	-17.7
Chick Peas	531	487	518	506	450	-8.1	6.3	-2.3	-11.1
Dry Beans	213	201	200	195	215	-5.7	-0.3	-2.5	10.3
Industrial Crops									
Sugar Beet	17,942	16,126	14,920	16,483	16,743	-10.1	-7.5	10.5	2.3
Cotton (raw)	2,150	2,580	2,320	2,250	2,350	20.0	-10.1	-3.0	4.4
Tobacco	53	45	73	90	70	-14.3	61.3	22.8	-22.2
Oil Seeds									
Sunflower	1,320	1,335	1,370	1,523	1,638	1.1	2.6	11.2	7.5
Soybeans	87	102	122	180	150	18.2	19.4	47.4	-16.7
Rapeseed	106	91	110	102	110	-14.3	20.6	-7.3	7.8
Groundnut	97	90	123	141	124	-7.1	35.8	15.1	-12.5
Tuber Crops									
Potatoes	4,513	4,613	4,795	3,948	4,166	2.2	3.9	-17.7	5.5
Dry Onions	1,900	2,141	1,736	1,905	1,790	12.7	-18.9	9.7	-6.0
Fruit Bearing Vegetables									
Watermelons and Melons	5,295	5,512	5,711	5,587	5,593	4.1	3.6	-2.2	0.1
Tomatoes	10,052	11,003	11,350	11,820	11,850	9.5	3.1	4.1	0.3
Fruits and Nuts									
Grapes	4,255	4,296	4,185	4,011	4,175	1.0	-2.6	-4.2	4.1
Figs	255	261	275	299	300	2.2	5.6	8.7	0.5
Citrus Fruits	3,572	3,614	3,475	3,681	3,784	1.2	-3.8	5.9	2.8
Hazelnuts	600	430	660	549	412	-28.3	53.5	-16.8	-25.0
Apples	2,600	2,680	2,889	3,128	2,480	3.1	7.8	8.3	-20.7
Olives	1,415	1,750	1,820	1,676	1,768	23.7	4.0	-7.9	5.5
Tea	1,306	1,231	1,250	1,150	1,260	-5.7	1.5	-8.0	9.6
Value Added in Agriculture (at 1998 prices, billion TL)	9,999	10,604	10,935	11,315	11,083	6.1	3.1	3.5	-2.1

Source: TURKSTAT

SERVICES

The services sector, which accounted for 69.4% of GDP (excluding tax-subsidies and Financial Intermediation Services Indirectly Measured) in 2012 (compared to 68.5% of GDP in 2011) and 58.4% of total civilian employment in 2014, is composed of a wide range of activities including construction, wholesale and retail trade, tourism, transport and communications, as well as finance and commerce, health, education and social services. In 2012, value added in the services sector increased by 2.4%, compared to a 9.0% increase in 2011. The increase in the services sector was attributable to the overall recovery of the Turkish economy and its impact on trade and construction sectors. In 2013 and 2014 value added increases continued in the services sector and the growth rate reached 5.7% and 3.9%, respectively. As of end of 2014, services sector accounts for 70.0% of GDP.

Trade

Wholesale and retail trade is a dynamic sector in Turkish economy. A modernization trend toward more organized market structure has been observed during recent years. By 2013, the share of sector in total enterprise and employment in industry and services were 39.9% and 24.3%, respectively (excluding financial services). In 2013, wholesale and retail value added accounted for 13.5% of GDP and remained stable in 2014 (at current prices).

Tourism

Tourism has become a major growth sector in Turkey's economy, has contributed significantly to foreign exchange earnings, and has generated demand for other activities including transportation and construction. Government policy has been to support and promote growth in the tourism sector in Turkey by expediting improvements in infrastructure and by facilitating private investment in this sector, including both foreign and domestic investment.

In 2010, the total number of foreign visitors visiting Turkey increased by 5.7% to 28.6 million. Nevertheless, tourism revenues decreased by 1.7% to U.S.\$22.6 billion. In 2011, the number of foreign visitors increased by 9.9% to 31.5 million and tourism revenues increased by 10.9% to U.S.\$25.1 billion. In terms of number of tourists, Turkey moved up one position to sixth place among world's top tourism destinations in 2011 and remained in sixth place in 2012. These figures also show that average spending by tourists in Turkey increased in 2011. Current political crisis in Northern African countries has led to an increase in Turkish tourism. In 2013, the total number of foreign visitors visiting Turkey increased by 9.8% to 34.9 million and tourism revenues increased by 10.5% to U.S.\$28 billion. In 2014, the total number of foreign visitors visiting Turkey increased by 5.5% to 36.8 million and tourism revenues increased by 5.6% to U.S.\$29.6 billion.

The following table presents overall tourist arrivals, receipts and the percentage change in receipts for the years indicated:

Table 9

<u>Year</u>	<u>Total Arrivals</u> (in thousands)	<u>Total Receipts</u> (in millions of US dollars)	<u>% Increase in Total Receipts</u> (percentage)
2010	28,632	22,585	-1.7
2011	31,456	25,054	10.9
2012	31,783	25,345	1.2
2013	34,910	27,997	10.5
2014	36,838	29,552	5.6

Sources: CBT, Ministry of Culture and Tourism

Transport and Communications

Modernization of transport and communications has been a priority of the public sector in the past decade, and since 1996 this sector has received, on average, approximately 33% of total public sector investment. Including private sector investments in transport, approximately 23% of gross fixed capital development has been allocated to transportation and communication since 1996.

Major projects have included the construction of motorways, the expansion of airports and air traffic control systems, railway improvement, and the continuing improvement of road standards to higher load/axle capacity in intensive traffic areas.

Since its liberalization in 2004, the telecommunications sector has experienced rapid growth. As of 2012, 2013 and 2014, the value of the telecommunications market reached approximately U.S.\$16.2 billion, U.S.\$15.7 billion and U.S.\$15.4 billion, respectively. Even though growth rates in the transportation and information/communication sectors were 3.9% and 2.8% in 2013, 2.8% and 3.3% in 2014, respectively, in terms of Turkish lira, the contraction in U.S. dollar terms is the result of depreciation of the currency. A total of 1031 authorizations were granted to 632 telecommunications operators as of May 11, 2015.

The Electronic Communications Law (Law No. 5809, published in Official Gazette on November 11, 2008), which was prepared in line with EU legislation, came into effect in 2008. It introduced a general regime that considerably simplified market entry for providers. Several additional regulations have been put into effect since the enactment of Law No. 5809.

In the context of the EU accession process of Turkey, the “Information Society and Media” chapter of the EU acquis (Chapter 10) was opened for negotiation in December 2008. Negotiation is still open as of the date of this Annual Report.

3G mobile broadband services were introduced in August 2009 in Turkey. As of 2012, 3 telecommunication operators provide these services. Arrangements for the awarding of 4G licenses are ongoing.

The usage of fixed and mobile broadband services is steadily increasing in Turkey while fixed telephone usage has been declining since 2006. Mobile telephone (GSM + 3G) penetration is 92.7% and fixed line telephone use declined to 15.9% as of March 2015. The use of broadband services in Turkey increased drastically in the last few years. Total broadband penetration is 53%% as of March 2012, and mobile broadband use reached 41.7% as of December 2014.

In 2010 and 2011, the total output in transportation increased by 11.0% and 10.4% in real terms and accounted for 12.4% and 13.1% of GDP at current prices, respectively, while information/communication sector grew by 4.7% and 9.2% in real terms and accounted for 2.5% and 2.2% of GDP at current prices. In 2012, value added in transportation grew by 2.0% and accounted for 13.5% of GDP at current prices, while information/communication sector grew by 8.5% in real terms and accounted for 2.3% of GDP. In 2013, the growth rate in transportation sector was 3.9% and share in GDP was 13.5%, while information/communication sector’s growth rate and share was 2.8% and 2.2%, respectively. In 2014, the growth rate in transportation sector was 2.8% and share in GDP was 13.4%, while information/communication sector’s growth rate and share was 3.3% and 2.1%, respectively.

Construction

The importance of the construction sector is underscored by the role of housing, particularly by the activities of the Mass Housing Administration, the development of industrial facilities and commercial buildings, and the implementation of public infrastructure improvements. Also, domestic and international contracting and engineering services are important to the value added and employment potential of Turkey. With its strong knowledge, experience and human resource capacity, the Turkish construction and contracting services sector is competitive in foreign markets.

The construction sector shrunk by 16.1% in 2009. However, the sector began to recover in 2010 from the sectoral recession with a growth rate of 18.3%. In 2011 the sector grew by 11.5%. Following this high growth period, a slowdown was observed in the sectoral activity, which is reflected by a 0.6% growth in 2012. Although the sector recovered and achieved a 7.4% growth rate in 2013, this trend did not continue in 2014, when a decreasing trend was observed in growth rates. Decreasing positive growth rates in the first three quarters in 2014 (5.8%, 3.4% and 2.0%, respectively) turned negative during the last quarter (-2.1%) constituting an overall annual growth rate of 2.2% for 2014.

The construction and contracting sector maintains a competitive position in certain foreign markets, especially in North Africa, Middle East and CIS. Its market share has increased from around U.S.\$1 billion in 2000 U.S.\$30.2 billion in 2013. The total contracting amounts in 2010, 2011, 2012, 2013 and 2014 were U.S.\$23.4 billion, U.S.\$23.0 billion, U.S.\$29.7 billion, U.S.\$30.1 billion and U.S.\$27.0 billion, respectively.

EMPLOYMENT AND WAGES

The total civilian labor force in Turkey was 28,786 thousand people in 2014. Turkey has a large pool of unskilled and semi-skilled workers. Turnover in the labor force has been high in certain industries, particularly in those that are labor-intensive. During the period from 2008 to the end of 2014, the total labor force increased at an average annual rate of approximately 3.89%.

Total civilian employment was 25,933 thousand in 2014, of whom approximately 21.1% were employed in agriculture, 20.5% in industry and 58.4% in services. Moreover, in 2014, the labor force participation rate was at 50.5%, compared to 48.3% in 2013.

There were approximately 3,440,000 public sector workers at the end of 2014. The rate of unemployment was 9.9% in 2014, compared to 9.0% in 2013.

The following table sets forth information with respect to the labor force and employment in Turkey for the dates indicated:

Table 10

	Employment (in thousands)				
	2010	2011	2012	2013	2014
Civilian labor force	24,594	25,594	26,141	27,046	28,786
Civilian Employment	21,858	23,266	23,937	24,601	25,933
Agriculture	5,084	5,412	5,301	5,204	5,470
Industry	4,615	4,842	4,903	5,101	5,316
Services	12,159	13,012	13,733	14,296	15,147
Unemployed	2,737	2,328	2,204	2,445	2,853
Unemployment rate (%)	11.1	9.1	8.4	9.0	9.9

Source: TURKSTAT

The following table sets forth information on the employment rate with respect to age and gender in Turkey for the dates indicated:

Table 11

Year	Employment Rate%			Year	Youth* Employment Rate%		
	Male	Female	Total		Male	Female	Total
2010	62.7	24.0	43.0	2010	40.2	20.3	30.0
2011	65.1	25.6	45.0	2011	43.4	21.2	32.1
2012	65	26.3	45.4	2012	42.5	20.7	31.5
2013	65.2	27.1	45.9	2013	43.1	21.5	32.2
2014	69.5	29.5	49.5	2014	45	22.0	33.5
September 2015	71.1	31.0	51.1	September 2015	48.8	24.3	36.6

Source: TURKSTAT

(*) Young people in the 15-24 age group

The collective bargaining system in Turkey covers workers in the public and private sectors. The public sector includes employees who are defined under Union and Collective Bargaining Law No. 6356 and work for state – owned enterprises.

In 2010, labor costs in the public sector increased by 6.9% (-1.5% in real terms), compared to 2009. Labor costs in the private sector increased by 7.2% (-1.2% in real terms) in 2010, compared to 2009. Labor costs (including salaries and benefits) for civil servants increased by 7% (-1.4% in real terms) in 2010 compared to 2009.

In 2011, labor costs in the public sector increased by 6.4% (-4.2% in real terms), compared to 2010. Labor costs in the private sector increased by 11.6% (0.5% in real terms) in 2011, compared to 2010 (predict). Labor costs (including salaries and benefits) for civil servants increased by 12.0% (0.8% in real terms) in 2011, compared to 2010.

In 2012, labor costs in the public sector increased by 7.2% (1.0% in real terms), compared to 2011. Labor costs in the private sector increased by 9.4% (3.1% in real terms) in 2012, compared to 2011. Labor costs (including salaries and benefits) for civil servants increased by 13.1% (6.6% in real terms) in 2012.

In 2013, labor costs in the public sector increased by 7.8% (3.1% in real terms), compared to 2012. In 2014, labor costs in the public sector increased by 10.6% (0.3% in real terms), compared to 2013. Labor costs in the private sector increased by 9.3% (4.6% in real terms) in 2013, compared to 2012. Labor costs (including salaries and benefits) for civil servants increased by 7.3% (2.7% in real terms) in 2013 and 11.2% (0.8 % in real terms) in 2014.

The following table sets forth the real and nominal changes in costs of labor to public and private employers from the prior year for the public and private sectors and civil servants for the years indicated:

Table 12

	Changes in Labor Costs					
	Public Sector		Private Sector ⁽²⁾		Civil Servants	
	Nominal	Real ⁽¹⁾	Nominal	Real ⁽¹⁾ (percentage change)	Nominal	Real ⁽¹⁾
2010	6.9	-1.5	7.2	-1.2	7.0	-1.4
2011	6.4	-4.2	4.4	6.0	12.0	0.8
2012	7.2	1.0	12.1	5.7	13.1	6.6
2013	7.8	3.1	9.3	4.6	7.3	2.7
2014	10.6	0.3	—	—	11.2	0,8

(1) Deflated by the WPI. Labor costs presented in this table include costs of employment in addition to wages.

(2) Figures represent a selective sample of wages covered by the collective bargaining agreements between TİSK, the confederation of employer unions, and trade unions.

Source: Ministry of Development, Turkish Confederation of Employer Associations, TURKSTAT, Ministry of Finance.

The wages of public sector workers increased by 2.5% for the first half of 2010 and by another 2.5% for the second half of 2010. The salaries of civil servants were increased by 2.5% for the first six months of 2010 and by another 2.5% for the second half of 2010. Salaries for civil servants were increased by an additional 1.06% in order to compensate for the difference between the actual inflation rate and the targeted inflation rate in the first half of 2010. The implementation of prudent policies in public finance and the banking sector created the fiscal flexibility that enabled the increase in wages and salaries of civil servants in 2009 and 2010 in accordance with then-existing contractual obligations. The salaries of civil servants increased by 4.0% in each six month period in 2011. The salaries of civil servants increased by 13.1% in 2012 and 7.3% in 2013. In 2014, all civil servant salaries increased by a fixed amount (TL 175) and additional increases were made to certain professional groups. As a result of these improvements, the salaries of civil servants increased by 11.2% in 2014.

The minimum wage for both private and public sector workers increased by 4.7% in the first six months of 2011. The minimum wage for both private and public sector workers increased by 5.91% in the first six months of 2012 and by another 6.09% in the second half of 2012. The minimum wage for both private and public sector workers increased by 4.1% in the first half of 2013 and by an additional 4.4% in the second half of 2013. In 2014, the minimum wage for both private and public sector workers increased by 5.0% in the first half of 2014 and by an additional 6.0% in the second half of 2014. In 2015, the minimum wage for both private and public sector workers increased by 6.0% in the first half of 2015 and by an additional 6.0% in the second half of the year.

The Constitution recognizes the rights of employees and employers to form labor unions, employers' associations and other organizations in order to safeguard and develop their economic and social rights and the interests of their members, consistent with the characteristics of Turkey as defined in the Constitution and in line with its democratic principles. A series of Constitutional amendments adopted in 1995 removed certain restrictions on activities of trade

unions and associations, including restrictions on direct political activity, contributions from and to political parties and collective activity with other associations, foundations and professional organizations. In addition, the right of civil servants to establish trade unions was recognized.

The Constitution also stipulates, however, that the right to strike and to engage in lockouts is not to be exercised in a manner contrary to the principle of good faith, to the detriment of society or in a manner damaging to national wealth.

Law No. 6356, which regulates collective labor agreements, was enacted in 2012. This legislation came into force instead of the Law No. 2821 and 2822. With this new law many arrangements have been implemented to enhance the opportunities of trade union organization to move industrial relations and labor life to modern standards and ILO criteria.

As of July 31, 2013, 1,468,021 employees were members of a trade union (in public), compared to 855,463 employees at the beginning of 2007. As of July 31, 2014, 2,270,558 employees were members of a trade union. Moreover, the ratio of civil servants who are union members was 68.77% as of July 31, 2013, compared to 68.17% as of July 31, 2012. The percentage of civil servants who are union members was 70.03% as of July 31, 2014.

INFLATION

In 2010, CPI and PPI inflation were 6.4% and 8.9%, respectively, with the CPI being close to the year-end inflation target of 6.5%. In the first quarter of 2010, increases in indirect tax rates on alcoholic beverages, tobacco and fuels, along with the base effect, resulted in a rise in inflation. However, in the second quarter of 2010, inflation began to decrease with the easing of food and commodity prices. Although domestic demand recovered in 2010, aggregate demand conditions did not create inflationary pressures. Hence, inflation in subcategories of the CPI followed a reasonable course, except for unprocessed food prices, which were volatile during 2010. Meanwhile, despite increasing in the first quarter of 2010, the annual rate of increase in core inflation indicators remained at considerably lower levels than headline inflation throughout the year.

Falling to a historically low year-end value in 2010, the annual headline inflation further declined in the first quarter of 2011 and decreased to 3.99% by March 2011, the lowest it has been since June 1970. Throughout the year, import prices denominated in Turkish lira increased, mainly as a result of the depreciation of the Turkish lira, which caused core goods inflation to soar in the second half of 2011. Though it did not have an unfavorable outlook, annual inflation of services followed a mild upward trend. While year-on-year rates of processed food prices rose during 2011, rates for unprocessed food followed a volatile course which led to a similar course in the annual inflation of food group. Likewise, energy prices followed an upward trend, which got steeper after the energy price adjustments in the last quarter of 2011. Also, adding to upward price pressures, the tax rate on certain items such as alcoholic beverages and tobacco products increased in the fourth quarter of the year. Additionally, during 2011, the contribution of aggregate demand conditions to disinflation decreased and producer price pressures remained high. The sizable depreciation of the Turkish lira was the main factor causing the year-end target of 5.5% to be exceeded by a wide margin, as annual CPI inflation was 10.45%. Meanwhile, PPI inflation rose to 13.33% and core inflation indicators scaled up.

In 2012, CPI inflation ended the year with a historically low year-end value of 6.2%. The depreciation of the Turkish lira in 2011 for the most part ceased to affect inflation, particularly with respect to durable goods, thus annual inflation in core goods displayed a downward trend across the year. The relatively favorable course of unprocessed food prices was a major factor in reducing inflation. The stable course of the foreign exchange rates, the slowdown in economic activity and the steady course of international commodity prices, excluding agricultural products, throughout the year contributed positively to the inflation outlook. Although services inflation grew slightly during this period, alleviated cost and demand pressures caused the core inflation indicators to trend downwards throughout the year. However, public price increases and tax adjustments, especially in the energy sector, were the leading factors contributing to a worsening inflation. Consumer inflation exceeded the 5% inflation target by 1.16% in 2012, but remained within the uncertainty band. PPI inflation also hit a historically low year-end level of 2.45%, curtailing cost-side pressures on consumer prices throughout the year.

In 2013, consumer inflation increased by 1.2 points year-on-year to 7.4%, overshooting the uncertainty band of the inflation target. Consumer inflation, which soared due to the tax adjustments on tobacco at the beginning of 2013, followed a volatile path in the remaining part of the year amid developments in unprocessed food and energy prices, and ended the mid-year significantly above the value implied by the target. In the second half of the year, the weak course of portfolio flows driven by global uncertainty over the monetary policies in advanced economies led to depreciation of the Turkish lira and caused core inflation indicators to rise with the pass-through effect. Consequently, inflation expectations deteriorated slightly during the last six months of 2013. PPI inflation rose to 6.97% and the course of producer prices suggested that cost pressures on consumer prices increased.

In 2014, annual consumer inflation increased by 0.8 points year-on-year to 8.2%, rising above the uncertainty band around the inflation target. This increase was mostly driven by the depreciation of the Turkish lira as well as the sharp increase in food prices. Throughout the year, inflation followed a volatile course shaped by food price and exchange rate developments. In the first half of 2014, inflation soared due to considerable depreciation of the Turkish lira and surge in food prices and ended the mid-year significantly above the value implied by the target. Despite the slowdown in the second half of the year, thanks to plunging international oil prices and the partial correction in unprocessed food prices, annual inflation ended the year with a high year-end value. Consequently, medium-term inflation expectations followed a downward track in the fourth quarter after trending upward earlier in the year. In line with the outlook for import prices, annual PPI inflation declined to 6.4% in 2014.

Uncertainty Band around Target and Inflation Realizations

Table 13

	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014
Uncertainty Band (upper limit)	8.5	7.5	7	7	7
Uncertainty Band (lower limit)	4.5	3.5	3	3	3
Realization	6.4	10.4	6.2	7.4	8.2

Source: TURKSTAT, CBRT

The following table presents the percentage changes in producer and consumer prices for the years indicated:

Inflation

Table 14

<u>Year</u>	<u>Producer Price Index</u> (percentage change)	<u>Consumer Price Index</u>
2010	8.9	6.4
2011	13.3	10.4
2012	2.5	6.2
2013	7.0	7.4
2014	6.4	8.2

Source: TURKSTAT

EDUCATION

According to the Address Based Population Registration System, the adult literacy rate among individuals aged 6 years and over increased sharply from 80.5% in 1990 to 96.1% in 2014. The rate for men and women was 98.7% and 93.6%, respectively. Over the years, increasing primary school attendance rates have been influential in reducing the illiteracy rate.

According to the Ministry of Development, total student enrollment in the educational year 2014-2015 was 23.6 million, of whom 4.9% were in pre-primary school, 45.3% were in primary school, 24% were in secondary school and 25.6% were in university. The number of university students continues to increase year after year.

ENVIRONMENT

During the 1990s, Turkey experienced increasing environmental pressures as a result of rapid urbanization and rapid sectoral growth in energy, industry and transport. Among these environmental pressures, Turkey experienced industrial and municipal pollution, erosion, waste management inadequacies and water, air and noise pollution, particularly in urban areas, such as Istanbul, Ankara, Izmir, Kocaeli, Mersin and Adana.

The Ministry of Environment and Forestry (renamed in 2011 as the “Ministry of Environment and Urbanization”), which is authorized to enforce environmental laws and regulations by imposing fines, civil and criminal sanctions or shutting down facilities, was formed in 2004. Turkey made significant advances in the latter half of the 1990s by reforming its environmental legislation to harmonize with the EU acquis, increasing environmental management capacity and increasing environmental investments. Provincial and local governments now exercise more power with regard to environmental issues. There are 81 provincial offices of the Ministry of Environment and Urbanization. In addition, the Supreme Environmental Board, which is composed of senior government officials, was established in 1996.

Partnership arrangements and other agreements have been made with private sector groups, including the cement, automobile, textile, sugar, and leather industries, for early compliance with environmental legislation. Considerable progress has been achieved in the environmental performance of export-oriented industries, and projects have been launched for ensuring environmentally sound performance of small and medium-sized enterprises. Since 1994, the private sector has been incentivized to invest in environmental protection through the use of matching grants, covering up to 50% of the costs of environmental investments, and tax exemptions.

In 2008, the Ministry of Environment and Urbanization initiated a study to identify and remove environmentally harmful incentives in cooperation with other related institutions.

Turkey continues to cooperate with international environmental initiatives. Turkey is a party to most of the multilateral environmental agreements. Turkey is active in regional environmental initiatives such as the Mediterranean Technical Assistance Program, the Mediterranean Action Plan, the Black Sea Environment Program and Regional Agenda 21, which is a program for continuing development in Central Asian Republics and Balkan countries, pursuant to which these countries will operate under the same agenda regarding environmental issues.

As a candidate country for the EU, various environmental initiatives have been initiated by Turkey. The Environment Chapter opened as part of Turkey’s EU accession negotiations on December 21, 2009 following the fulfillment of the opening benchmarks. The Accession Process requires Turkey to address certain current environmental concerns, including, among others, water quality, the control of dangerous chemical substances and waste management. In January 2001, the European Commission (the “EC”) permitted Turkey and 12 other candidate nations to join the European Environmental Agency prior to becoming full members of the EU.

Turkey has made significant advances towards developing its environmental legislation and provincial and local governments have been given increased power with respect to regulating environmental matters. However, problems remain with regard to implementation of environmental policies and as a result environmental issues persist.

COMPETITION LAW

The Law on the Protection of Competition (Law No. 4054, the “Competition Act”) is the basic legislation which provides the framework for antitrust and merger control rules. The purpose of the Competition Act, which was adopted by the Grand National Assembly of Turkey on December 7, 1994, is to prevent agreements, decisions and practices preventing, distorting or restricting competition in markets for goods and services, and abuse by those undertakings dominant in the market, and to ensure the protection of competition by providing the necessary regulations and performing oversight to this end.

The Competition Act prohibits the following:

- Agreements and concerted practices between undertakings, and decisions and practices of associations of undertakings which have as their objective or effect, or likely effect, the prevention, distortion or restriction of competition directly or indirectly in a particular market for goods or services (i.e., agreements involving price fixing, market sharing, etc.);
- Abuse by an undertaking or association of undertakings of their dominant position in a particular field; and
- Mergers or acquisitions that create or strengthen an undertaking's dominant position and significantly decrease competition.

The Competition Act has been enforced by the Turkish Competition Authority ("TCA") since 1997, when the TCA was formed, and the Competition Board is the decision-making body of the TCA. In addition, the Competition Board has the authority to adopt secondary legislation designed to assist in the implementation of the Competition Act, which is in line with the legislation of the European Union.

The TCA is stand-alone entity and is granted administrative and financial autonomy. The TCA is a related body of the Ministry of Customs and Trade, but is independent in fulfilling its duties.

The Competition Board has the power to impose an administrative fine of up to 10% of the annual gross revenue of an applicable entity on the undertakings or associations of undertakings or the members of such associations that violate the Competition Act. Moreover, an additional administrative fine of up to 5% of the fine referenced in the previous sentence is imposed on an undertaking's/association of undertaking's managers or employees who are determined to have had a decisive influence with respect to the violation. Undertakings or associations of undertakings or their managers and employees who actively cooperate with the TCA for purposes of disclosing violations of the Competition Act may not be fined or fines may be reduced due to such cooperation. The Competition Act also provides for turnover-based fines for certain procedural violations, such as failure to provide requested information; providing incomplete, false or misleading information; hindering or complicating on-the-spot inspections; executing unauthorized mergers or acquisitions, which are subject to review by the Competition Board, or failure to comply with the decisions of the Competition Board.

Furthermore, the Competition Act empowers the Competition Board to impose structural remedies (i.e., divestiture of certain assets) and behavioral remedies (i.e., elimination of certain conduct such as refusal to deal or amendments to certain provisions in agreements involving resale of goods by dealers) in the event the Competition Act is violated. As a final matter, the TCA is empowered to submit its opinions regarding draft legislation to the relevant administrative and legislative bodies.

The following table presents a summary of the files concluded by the TCA between 2010 and 2014:

Files Concluded

<u>Year</u>	<u>Competition Infringement</u>	<u>Exemptions and Negative Clearance</u>	<u>Mergers and Acquisitions¹</u>	<u>Other 2</u>	<u>TOTAL</u>
2010	252	96	276	23	647
2011	283	54	253	27	617
2012	303	50	303	31	687
2013	191	58	213	30	492
2014	163	59	215	27	464
TOTAL	1,192	317	1,1260	138	2907

¹ Including privatizations.

² Including decisions taken in response to a Council or State Decision and other matters (e.g. requests for a re-evaluation of the decision).

Source: Competition Authority

In 2010, the following secondary legislation was adopted:

- Communiqué No. 2010/2 on Hearings held vis-à-vis the Competition Board, which sets forth rules and procedures for hearings held by the Competition Board;
- Communiqué No. 2010/3 on the Regulation of the Right of Access to File and Protection of Trade Secrets explains the procedures and principles for determining whether information or documents obtained during the enforcement of the Competition Act qualifies as trade secrets and for protecting such information and documents that have been classified as trade secrets.
- Communiqué No. 2010/4 Concerning the Mergers and Acquisitions Calling for the Authorization of the Competition Board was published in the Official Gazette in 2010 and effective as of January 1, 2011. Communiqué No. 2010/4 replaced former Communiqué No. 1997/1. This Communiqué imposes new principles and procedures concerning mergers and acquisitions that are required to be authorized by the Competition Board and provides for a new notification system based on the turnover of undertakings instead of the old system based on market share and turnover as set forth in the former Communiqué No. 1997/1.

In 2011, the following legislation was adopted:

- Articles 3, 20, 22, 27, 30 and 37 of the Competition Act were amended, in part to amend provisions regarding the composition of the Board and powers of the President of the TCA in delegating work to TCA staff.
- Two guidelines on Communiqué No. 2010/4 were issued. One of the guidelines was with respect to remedies that are acceptable to the TCA and the other was with respect to ancillary restraints in mergers and acquisitions. The purpose of this Communiqué is to determine and announce the mergers and acquisitions which require notification to and authorization by the Competition Board.

In 2012, the following legislation was adopted:

- Communiqué on the Procedure for the Applications about Competition Infringements (Communiqué No. 2012/2). The Communiqué determines and announces procedures for the intended applications to the TCA regarding the possible infringements of competition law and procedures for evaluating such applications within the Authority.
- Communiqué on the Amendments Made to the Communiqué Concerning the Mergers and Acquisitions Calling for the Authorization of the Competition Board (Communiqué No. 2010/4), (Communiqué No. 2012/3). With this communiqué, the merger notification thresholds have been amended. According to the amended (new) communiqué, authorization of the Board shall be required for the transactions which satisfy either one of the following thresholds:

(a) Total turnovers of the transaction parties in Turkey exceed TL 100 million, and turnovers of at least two of the transaction parties in Turkey each exceed TL 30 million, or

(b) The turnover in Turkey for the acquired assets or operations in acquisition transactions, or for at least one of the transaction parties in merger transactions exceeds TL 30 million, and at least one of the other transaction parties has a global turnover exceeding TL 500 million.

Communiqué No. 2012/3 also revoked the previous exceptions in the Communiqué no 2010/4 in relation to the affected market.

In 2013, the following legislation was adopted:

- Block Exemption Communiqué on Specialization Agreements (Communiqué No: 2013/3): The purpose of this Communiqué is to establish the conditions for granting block exemption to specialization agreements between undertakings from the application of the provisions of Article 4 of the Competition Act.
- Communiqué on the Procedures and Principles to be Pursued in Pre-Notifications and Authorization Applications to be Filed with the Competition Authority in Order for Acquisitions via Privatization to Become Legally Valid (Communiqué No: 2013/2): The purpose of this Communiqué is to establish and announce the procedures and principles to be pursued in pre-notifications and authorization applications to be filed with the Competition Authority in order for acquisitions realized by the Privatization Administration or by other public institutions and organizations to become legally valid, in accordance with Article 7 as well as Article 27, Paragraph 1, Subparagraph f of the Competition Act.

- Guidelines on the General Principles of Exemption: The Competition Act dated July 2, 2005 and numbered 5388 abolished the obligation to notify the Board of the agreements, concerted practices and decisions of associations of undertakings that are under the scope of Article 4 of the Act. Since the obligation to notify was abolished, in principle, undertakings and associations of undertakings should make the assessment for exemption on their own without notifying the Board. The purpose of these guidelines is to draw a general framework about the scope of Article 4 and the principles for the application of the conditions listed in Article 5 as well as to set out the criteria used in the assessment of exemption.
- Guidelines on the Assessment of Non-Horizontal Mergers and Acquisitions: The purpose of these Guidelines is to lay down the general principles to be taken into consideration in the initial assessments to be conducted by the Competition Board in relation to non-horizontal mergers and acquisitions.
- Guidelines on Horizontal Cooperation Agreements: The purpose of these Guidelines is to establish the principles that shall be taken into consideration in the assessment, within the framework of Article 4 and 5 of the Competition Act, of agreements between undertakings, decisions of associations of undertakings and concerted practices with the nature of a horizontal cooperation.
- Guidelines on Cases Considered as a Merger or an Acquisition and the Concept of Control: The cases considered as a merger or an acquisition are specified in Article 5 of the Communiqué no 2010/4 Concerning the Mergers and Acquisitions Calling for the Authorization of the Competition Board (the Communiqué). Accordingly, a merger by two or more undertakings or the acquisition of direct or indirect control over all or part of one or more undertakings by one or more undertakings or by one or more persons who currently control at least one undertaking, through the purchase of shares or assets, through a contract or through any other means shall be considered a merger or an acquisition within the scope of Article 7 of the Act, provided there is a lasting change in control. Cases considered as a merger or an acquisition as per Article 7 of the Act are given in these Guidelines.

In 2014, the following legislation was adopted:

- Guidelines On the Assessment Of Exclusionary Abusive Conduct by Dominant Undertakings: These Guidelines were published in order to describe the elements the Competition Board (“Board”) must take into consideration when assessing exclusionary abusive conduct by dominant undertakings under article 6 of the Competition Act, to increase transparency, and thus to minimize the uncertainties that may arise in the interpretation of the article by the undertakings.
- Competition Assessment Guide: the Guide aims to provide a methodology for government agencies in evaluating competitive impacts of draft or existing legislation. It includes a checklist setting forth questions for detecting unnecessary restraints on competition.

Turkish competition law is parallel to EU competition law and the implementation of competition policy in Turkey is one element of a much larger national initiative to advance beyond the Customs Union Agreement and achieve formal membership in the European Union. The Competition Act covers only antitrust and merger control rules. Regarding legislative alignment with the *acquis communautaire* in the field of competition rules and administrative capacity of the TCA, the 2011 Progress Report prepared by the European Commission reiterates that Turkey has made progress in adapting the *acquis*, administrative capacity is high and operational independence of the TCA is satisfactory. The Report indicated the need to make certain alignments with the *acquis* in some fields. Under Law No. 6015, published in the Official Gazette (No. 27738) dated October 23, 2010, the State Aid Monitoring and Supervision Board monitors and supervises state aids in line with the relevant *acquis communautaire*.

The TCA actively attends the meetings of Organization for Economic Cooperation and Development, United Nations Conference on Trade and Development, and International Competition Network on a regular basis and presents written papers and oral presentations while attending other meetings in the international space. The TCA has signed Memorandums of Understandings with the competition agencies of Korean Republic (2005), Romania (2005), Bulgaria (2007), Portugal (2008), Bosnia and Herzegovina (2010), Mongolia (2010), Russia (2011), Croatia (2011), Austria (2011), Northern Cyprus (2012), Egypt (2012), Kazakhstan (2013), and of Ukraine (2013) each in an aim to promote cooperation in the field of competition law and policy.

INTELLECTUAL PROPERTY

Turkish Copyright Law No. 5846 (enacted in 1951, as amended in 1995 by Law No. 4110) provides protection for scientific and literary works (including computer programs), musical works, artistic works (including textile and fashion designs), cinematographic works, and derivations. Under this law, an author has the exclusive right to perform, authorize or present his works which fall into one of the above mentioned categories, including the rights of adaptation, reproduction, distribution, performance presentation and broadcast. This law has a 70-year term of protection for these economic rights and also recognizes moral rights, which include an author's right to claim authorship of the work and to object to any distortion, mutilation or other modification of their work that would be prejudicial to their honor or reputation.

Since its founding, Turkey has ratified a number of international agreements that were important in the patent and trademark field, including the Paris Convention in 1925 and the Madrid Agreement in 1930. Turkey became a Member State of the World Intellectual Property Organization ("WIPO") in 1976. Turkey was also a member of the former International Patent Institute ("IIB") which was integrated into the European Patent Office in 1978. Turkey participated in the preparatory work for establishing a centralized European patent granting system, including the Luxembourg Inter-Governmental Conference in 1969 and the Munich Diplomatic Conference in 1973.

Under Decree Law No. 544, which became effective in June 1994, a government authority with financial and administrative autonomy, named the Turkish Patent Institute ("TPI"), was established to adapt to the modern industrial property system of developed countries. Decree Law No. 544 was amended by the "Law on Establishment and Functions of Turkish Patent Institute" (Law No. 5000) in November 2003. Further, Law No. 5194, came into force on June 22, 2004 and amended other laws which provided protection for patents, trademarks, industrial design and geographical indications. Under this Law, the penalty provisions of Decree Laws 551, 554, 555, and 556 were updated and harmonized with EU standards. However, a Constitutional Court decision in 2008 annulled the criminal sanctions related provisions of patent, designs and geographical indications.

The main task of the TPI is to perform registration pursuant to provisions of relevant acts of industrial property, which currently concerns patents and utility models, trademarks, industrial designs, topographies of layout-designs of integrated circuits and geographical indications. In addition, TPI performs the following: acts as a mediator in the performance of license transactions; acts as an expert before the courts; guides technological transfers and submits such information for the benefit of the public; cooperates with national/international institutions; and ensures the implementation of agreements in the field of industrial property rights. This attempt in modernization resulted in the enactment of various laws, decree laws, and regulations between 1994 and 2005.

A founding member of the World Trade Organization, Turkey adopted its national industrial property legislation in 1995. Turkey's intellectual property legislation was reviewed successfully by the TRIPS (Trade Related Aspects of Intellectual Property Rights, a part of the World Trade Agreement) Council most recently in 2012.

Turkey has also been a member of the European Patent Organization since 2000, which enables it to obtain patent protection in up to 38 European countries, including four extension states on the basis of a single application. Turkey has ratified the revised version of the EPC (EPC 2000), which came into force on December 13, 2007. The revision aims to provide for the adaptation and harmonization of the EPC with international laws, particularly TRIPS and Patent Law Treaty (PLT).

In June 1995, Turkey enacted the Decree Law (No. 556) which brought Turkish trademark law into compliance with the requirements of three international agreements. This Decree fulfills obligations under amendments to the 1883 Paris Convention (the “Paris Convention”), which enables citizens of member states to obtain equal protection under the laws of the other member states. It also provides citizens of a member state with a six-month period after the first registration of a trademark to register in other member states. This Decree incorporates provisions of applicable law as they apply to trademarks so as to harmonize Turkish law in terms of protection, enforcement and customs procedures designed to prevent trade in counterfeit goods. Finally, it complies with the requirements of the European Community Customs Union Decision (the “Customs Union Decision”). In the area of trademark law, the Customs Union Decision requires adoption of the provisions of EC Directive 89/104, which harmonizes the laws of the member states relating to trademarks.

Turkey also ratified the Madrid Protocol and entered it into force on January 1, 1999. The Madrid Protocol is one of the two treaties governing the system of international registration of trademarks to which 87 states are a party as of August 2011. It aims to render the Madrid System more flexible and more compatible with the domestic legislation of certain countries that have not been able to assent to the Agreement.

The Trademark Law Treaty has been in effect in Turkey as of January 1, 2005. This treaty makes national and regional trademark registration systems more user-friendly. This is achieved through the simplification and harmonization of procedures and through removing pitfalls, thus making the registration system safe for the owners of marks and their representatives.

The Turkish Patent Decree Law No. 551 provides a legal framework for the issuance and protection of patents and utility model certificates that complies with TRIPS and the Customs Union Decision. Turkey has also ratified the Strasbourg Agreement concerning international patent classification and the Patent Cooperation Treaty (“PCT”). The PCT makes it possible to seek patent protection for an invention simultaneously in each of a number of countries by filing an international patent application.

Turkey ratified the Locarno Agreement in November 30, 1998 establishing international classification and the Geneva Act of the Hague Agreement concerning international registration.

A Council was established in 2008. It aims, among other things, to coordinate the relevant governmental bodies in order to increase the effective enforcement and implementation of intellectual property rights. The council is headed by Undersecretaries of the Ministry of Science, Industry and Technology and the Ministry of Tourism and Culture. The council is composed of both the relevant governmental bodies and the Turkish Union of Chambers and Commodity Exchanges, the highest body representing the private sector.

In 2007, the EU identified the opening benchmark for “Chapter 7 (Intellectual Property Law)”. An action plan, in this context, was prepared and submitted to the EU on March 24, 2008 and the Negotiating Position Document for Chapter 7 was submitted to the EU for evaluation in April 2008. In line with the Action Plan and the 2008 National Program, a number of draft laws, including, but not limited to, Law on Protection of Designs, Trademarks Law, Law of Patent and Utility Model and Law on Geographical Indications were prepared to be harmonized with the *acquis*. Negotiations with the EU on closing such benchmarks have been continuing.

The TPI currently administers bilateral cooperation protocols with the IPR Offices of the following countries: Austria, Azerbaijan, Brazil, China, Bosnia & Herzegovina, Czech Republic, Denmark, France, Georgia, Italy, Kyrgyzstan, Macedonia, Mongolia, Morocco, Russia, Uzbekistan, and Sweden, Tunisia, Albania and Moldova.

International Agreements Ratified by Turkey

<u>NAME</u>	<u>Establishment Date</u>	<u>Number of Parties</u>	<u>Turkey's Position</u>	<u>Recent Developments and Participation</u>
Convention Establishing World Intellectual Property Organization	1967	184	YES	May 12, 1976
Agreement Establishing World Trade Organization (WTO)	1995	153	YES	March 26, 1995
European Patent Convention (EPC)	1973	37	YES	November 1, 2000
<i>IP Protection</i>				
Paris Convention for the Protection of Industrial Property	1883	173	YES Since October 10, 1925 London Act.	Stockholm Act Article (1-12) since 1995 Article (13-30) since 1976
Patent Law Treaty (PLT)	2000	25	Signed January 2, 2000	Not ratified

Trademark Law Treaty (TLT)	1994	45	YES	January 1, 2005
Singapore Treaty on the Law of Trademarks	2006	19	Signed March 28, 2006	Not ratified
<i>Global Protection System</i>				
Budapest Treaty on the International Recognition of the Deposit of Micro-Organisms for the Purposes of Patent Procedure	1977	72	YES	November 30, 1998
The Hague Agreement Concerning the International Deposit of Industrial Designs (Geneva Act.)	1999	57	YES	January 1, 2005
<i>Protocol Relating to Madrid Agreement</i>	1989	81	YES	January 1, 1999
Patent Cooperation Treaty (PCT)	1970	142	YES	January 1, 1996
<i>Classification</i>				
Locarno Agreement Establishing an International Classification for Industrial Designs	1968	51	YES	November 30, 1998
Nice Agreement Concerning the International Classification of Goods and services for the Purposes of Registration of Marks	1957	83	YES	January 1, 1996
Strasbourg Agreement Concerning the International Patent Classification (IPC)	1971	61	YES	January 1, 1996
Vienna Agreement Concerning International Classification of the Figurative Elements of Marks	1973	28	YES	January 1, 1996

Statistics Regarding Industrial Property Rights Applications/Registrations/Grants

Table 15

	2010	2011	2012	2013	2014
Number of Patent Applications	8343	10241	11599	12053	12375
Number of Utility Model Applications	3033	3244	3788	3541	3568
Number of Trademark Applications	85466	117723	111143	100608	111544
Number of Industrial Design Applications	6972	7989	8423	8782	9028

Source: Turkish Patent Institute

Table 16

	2010	2011	2012	2013	2014
Number of Patent Granted	5510	6539	7816	8925	8530
Number of Utility Model Issued	2050	1976	2299	2037	2561
Number of Trademarks Registered	43851	42059	64721	83189	87545
Number of Industrial Designs Registered	6841	7388	7767	8393	8265

Source: Turkish Patent Institute

SOCIAL SECURITY SYSTEM

The pay as you go social security system in Turkey has been run by the Social Security Institution (SSI) since 2006. The SSI is responsible for conducting all operations of the active/passive insured and their dependents regarding retirement and health services.

Before 2006, there were three different social security institutions which provided service to the insured depending on their working status (worker, self-employed, civil servant). Because of this fragmented system, the insured were unfairly receiving different levels of services depending on their working status including health services and retirement parameters. In addition, the budget deficits of these institutions were growing rapidly. Because of these reasons, studies on a fair and financially sustainable social security reform had begun in early 2000s.

In 2008, the social security system was amended by the Social Security and Universal Health Insurance Law (Law No.5510). The most important parameters of the social security system are provided in the table below.

Table 17

	<u>Before the Reform</u>	<u>After the Reform (Law 5510)</u>
Retirement Age (women/men)	58 / 60 (for new entries)	Gradual increase to 65 for both genders starting from 2035
Contribution Period		
• Workers	• 7000 days	• 7200 days
• Others	• 9000 days	• 9000 days
Valorization of Contribution for SSK and BK	100% real GDP growth + 100% CPI	30% real GDP growth + 100% CPI
Replacement Rate		
• Civil servant	• 50% + 1% for each year	2% for each year
• Others	• 3.5% for the first 10 years; 2% for the next 15 years; 1.5% for the remaining years	

Source: UT

In addition to eliminating the differences between the services that the insured receive, one of the most important features of the reform was to repress the rapidly growing deficits of the social security system. Total budgetary transfers to the SSI were 4.4% of GDP in 2014.

Revenues and Expenditures of Social Security Institution

Table 18

Million TL	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues	95	124	143	163	184
Expenditures	122	141	160	183	204
Rev. - Exp.	-27	-16	-17	-20	-20
Budgetary Transfers (BT)	55	53	59	71	77
BT as % of GDP	5.0%	4.1%	4.2%	4.6%	4.4%

Source: SGK (in Turkish)

The goals of the reform in health services are:

- Implementation of General Health Insurance which covers the entire population,
- Countrywide implementation of family medicine and
- Easier access to all health care services by the insured.

The compulsory unemployment insurance system was introduced in 1999. The Turkish Employment Agency is responsible for all transactions and services related to unemployment insurance. Contribution rates for unemployment insurance are 2% for the employer, 1% for the employee and 1% for the State based on the employee's gross salary.

The first unemployment payments were made in March 2002. As of December 2014, the total asset value of the Unemployment Insurance Fund was TL 81.4 billion.

Personal Pension System

Law No. 4632 (Individual Pension Savings and Investment System) aims to (a) establish the regulation and supervision of the individual pension system which is complementary to the state social security system on the basis of voluntary participation and a fully funded defined contribution, with a view towards directing individual pension savings to long term investments, (b) improve welfare level during retirement by providing a supplementary pension income and (c) contribute to economic development by creating long-term resources for the economy and thereby increasing opportunities for employment. The Personal Pension System commenced on October 27, 2003. As of the end of 2014, there were 19 pension companies, 5,092,871 participants and 5,807,319 active pension contracts in the system, while the total amount of funds reached TL 37.8 billion.

According to the Law No. 6327, which came into force in June 2012, the tax deduction incentive was replaced by a state match of 25% for the contributions made by the participants within the system. This match is capped at the annual gross minimum wage for each participant. This new incentive, aiming to increase the effectiveness of the system in attracting pension savings, came into effect on January 1, 2013. Whereas the total number of participants at the end of 2012 was 3,128,130, as a result of the new incentive, the number of new participants who have entered into the system has increased by approximately 2 million between 2013 and 2014.

EXCHANGE RATES AND EXCHANGE POLICIES

The Central Bank continued to implement the floating exchange rate regime in 2010 along with the inflation-targeting regime. A strong foreign exchange reserve position is important for emerging economies like Turkey to curb the unfavorable effects of potential internal and external shocks to the economy and to boost confidence in the country. Therefore, in 2010, the Central Bank held foreign exchange buying auctions to build up reserves. The maximum daily amount to be purchased in auctions was set at U.S.\$60 million, with U.S.\$30 million being the auction amount and the remaining U.S.\$30 million being the optional amount. Due to the growing capital inflows to Turkey, the Central Bank decided to increase the maximum daily amount to be purchased in auctions to U.S.\$80 million, with U.S.\$40 million being the auction amount and U.S.\$40 million being the optional amount, effective from August 3, 2010. In order to benefit from capital inflows more effectively and to enhance resilience against volatile capital flows, the Central Bank decided to alter the method of foreign exchange buying auctions on October 4, 2010 in an attempt to strengthen foreign exchange reserves. According to this new method, in the event of improvement in liquidity conditions and strengthening capital inflows, the Central Bank could raise the maximum daily amount to be purchased through auctions in order to accelerate foreign exchange reserve accumulation. From October 4, 2010 to December 31, 2010, Central Bank purchased U.S.\$5.8 billion. The total amount of foreign exchange purchased in 2010 with auctions was U.S.\$14.9 billion. The Central Bank did not exercise any selling intervention or selling auction in 2010.

The Central Bank continued to implement the floating exchange rate regime in 2011. Amid strong capital inflows to Turkey in the first quarter of 2011, further FX purchase auctions were held with the objective to strengthen the Central Bank's reserves as much as possible. In the second quarter of 2011, rising concerns over global growth and sovereign debt sustainability in some European countries deteriorated risk appetite and had an adverse impact on capital flows to emerging economies, including Turkey. In view of these developments, the amount to be purchased via daily FX auctions was reduced in May and June, and FX purchase auctions were suspended as of July 25, 2011. Given the heightened uncertainty due to aggravated concerns over global growth and sovereign debt sustainability in some European countries as of late July, with a view to providing the market with FX liquidity, on August 5, 2011, the Central Bank started to hold FX sale auctions, when deemed necessary. In September 2011, the Central Bank announced that the selling amount was set as the maximum daily amount to be sold on the days of FX sales. The

amount to be sold could also be lower than the maximum selling amount when deemed necessary. In November, the Central Bank decided to announce the maximum amount of FX that can be sold via auctions on every working day for the subsequent two working days. In December, the Central Bank increased the maximum amount of FX that can be sold within two working days following the daily FX auctions to U.S.\$1.70 billion and the amount that can be sold other than exceptions to U.S.\$1.35 billion. Starting from January 6, 2012, the Central Bank started to hold intra-day foreign exchange sale auctions when necessary. Given the improving current account balance dynamics following the decisions taken at the MPC meeting on January 24, 2012 as well as the abrupt changes in global conditions, the regular FX sale auctions were suspended as intra-day FX sale auctions proved relatively more efficient and better-suited to meet the objectives of the monetary policy than the regular auctions. Moreover, on October, 18, 2011, December 30, 2011 and January 2 to 4, 2012, direct FX sale interventions were performed in response to unhealthy price formations in exchange rates due to loss of market depth. The last four direct FX sale interventions were conducted in the context of additional monetary tightening which was started on December 29, 2011 as a response to deteriorated inflation outlook and delivered on so-called “exceptional” days in the first half of 2012. Although additional monetary tightening has been implemented mainly via open market operations, it also featured unsterilized (effective) foreign exchange sales and interventions in order to prevent inflation expectations from being adversely affected by exchange rate movements detached from fundamentals.

With a view of providing the market with FX liquidity, FX required reserve ratios were reduced in July, August and October 2011. In addition, interest rates on weekly FX deposits at the FX and Deposit Markets were slightly reduced in August 2011. The maturity of FX deposits that banks can buy from the Central Bank was extended from one week to one month in December 2011. Furthermore, in order to ease FX liquidity in the interbank FX markets, the Central Bank resumed its intervention in the FX Deposit Markets in November 2011.

Moreover, in September 2011, the Central Bank introduced a new facility, Reserve Option Mechanism (ROM), which allows banks (and later on other financial institutions) to maintain reserve requirements for Turkish lira liabilities in US Dollar and/or Euro up to a certain threshold. According to this mechanism for each Turkish lira reserve requirement, the banks can bring equivalent FX amount weighted by a factor called Reserve Option Coefficient. In September 2011, this facility allowed banks to maintain FX reserves for Turkish lira reserve requirements up to 10%. This option was first raised to 20% and then 40% in October 2011. In 2012, this option was gradually further raised to 45%, in to 50% in May 2015 and 55% in June 2015. Since this facility is used by the banks almost fully, it increased the FX reserves of the Central Bank.

On October 27, 2011, the Central Bank updated the reserve requirement ratios for Turkish Lira deposits for related maturities and set the range between 5% and 11%. In addition, the reserve requirement ratios for foreign exchange deposits and liabilities were adjusted on October 5, 2011, with a range set between 6% and 11% depending on maturity.

On December 28, 2011, the Central Bank announced that, in addition to the daily one-week repo auctions, the Central Bank will start holding one-month (4 weeks) repo auctions every Friday. The one-month repo auctions are to be held in the traditional auction method and each institution’s total bid amount is to be limited to an announced auction amount. Auctions commenced on December 30, 2011. For the period of December 30, 2011 to January 26, 2012, upper limits were set as TL 2.0 billion for the total funding through one-month auctions and TL 3.0 billion for each week’s auction. On May 29, 2012, the MPC decided to set the amount of daily funding via quantity auctions between TL 1.0 and TL 5.0 billion. On June 21, 2012, the MPC decided to keep the amount of daily funding via quantity auctions between TL 1.0 and 5.0 billion until July 19, 2012. The upper limit for each one-month repo auction to be held between June 22 and July 21, 2012 was set at TL 5.0 billion.

On March 29, 2012, the limit for standard gold reserves that may be held to meet reserve requirements for foreign currency liabilities, excluding precious metal deposit accounts, was decreased from 10% to 0%. On June 21, 2012, it was announced that the upper limit for gold reserves that might be held to maintain Turkish lira reserve requirements was raised from 20% to 25%, and banks were allowed to hold Turkish lira reserve requirements in gold over the total amount calculated by multiplying the first tranche corresponding to 20% of Turkish lira reserve requirements by a reserve option coefficient (“ROC”) of “1” and the second tranche corresponding to 5% of Turkish lira reserve requirements by a ROC of “1.5.”

On August 3, 2012, the Central Bank announced certain technical amendments to the Communiqué on Reserve Requirements no. 2005/1 relating to operational processes with respect to reserve requirements. These amendments stipulate that, as is the case with FX reserve requirements, the Turkish lira equivalent of FX reserves maintained for Turkish lira reserve requirements will be calculated by using the exchange rates announced in the Official Gazette on the calculation date; the US dollar reserves held by the Central Bank to maintain Turkish lira reserve requirements will not be less than 50% of total FX reserves; and the carryover limit will be 5%. On September 11, 2012, the Central Bank announced that in order to maintain required reserves consistent with the composition of foreign currency liabilities, banks must maintain their required reserves against their U.S. dollar-denominated liabilities in U.S. dollars only.

In 2011, the amount of FX purchased via FX purchase auctions totaled U.S.\$6.45 billion, while the total amount of FX sold through FX sale auctions and direct interventions amounted to U.S.\$13.60 billion. Furthermore, in 2012, an FX amount of U.S.\$2.46 billion sold through FX sale auctions and direct interventions. Gross FX reserves of the Central Bank excluding gold stood at U.S.\$78.46 billion at the end of 2011 and U.S.\$84.00 billion on July 13, 2012.

Central Bank Direct Interventions and Auctions in (million USD)

Table 19

	Interventions		Auctions	
	Purchase	Sale	Purchase	Sale
2010	—	—	14,865	—
2011	—	2,390	6,450	11,210
2012	—	1,450	—	1,006
2013	—	—	—	17,610
2014*	—	3,151	—	11,200

* As of December 31, 2014 (Includes direct sales to State Energy Enterprises)

Source: CBT.

In the second half of 2012, the Central Bank continued to implement the floating exchange rate regime along with the inflation targeting framework (having no nominal or real exchange rate target, and with intervention unlikely unless the level of exchange rate seemed decoupled substantially from macroeconomic fundamentals, hurting inflation and financial stability goals). The Central Bank continued to construct the Reserve Option Mechanism (ROM), which allows Turkish banks to hold a certain portion of their TL required reserves in foreign exchange (FX) and gold, during the second half of 2012 and increased the ROCs by 0.2% for all of the tranches except the first tranche (compared to July 2012). The utilization rate of this mechanism reached around 90% as of the end of 2012. The mechanism so far appears to support the resilience of the economy to cross-border capital flows and facilitate the liquidity management of the banking system.

As of December 21, 2012, ROM-based foreign exchange reserves were valued at U.S.\$27.2 billion (an increase of U.S.\$16.9 billion from the previous year), and the ROM-based gold reserves were valued at U.S.\$12.5 billion (an increase of U.S.\$10.2 billion from the previous year). To further strengthen the Central Bank's FX reserves, the Central Bank increased the export rediscount credits limits several times during 2012. In sum, export rediscount credits added U.S.\$8.3 billion to the Central Bank's net international reserves. Overall, total gross international reserves of the Central Bank reached U.S.\$119.1 billion as of the end of 2012. Additionally, the Central Bank provided nearly U.S.\$2.5 billion to the market through interventions and auctions in 2012.

Due to increasing cross-border capital flows during 2012, the Central Bank gradually increased the foreign exchange required reserve ratios to a range of 6% to 11.5% (with 6% for the longest maturity, and 11.5% for the shortest maturity) from 5% to 11%. Moreover, the Central Bank's foreign exchange lending rate was 4.5% for US Dollars and 5.5% for Euro. In the last meeting of the Monetary Policy Committee (MPC), on December 25, 2012, the MPC increased foreign exchange lending rates for US Dollars and Euro to 10% due to favorable global financial market conditions.

During 2013, the CBRT implemented new revisions to Reserve Option Mechanism for gold and FX facilities. These revisions included an increase in ROCs for gold option on January 22, 2013, an increase in ROCs for gold and FX option on March 26, 2013, addition of new tranches for FX and gold on March 26, 2013, an increase in ROCs for FX option on April 16, 2013, an increase in ROCs for FX option and addition of new tranches for FX on May 16, 2013, an increase in ROCs for FX option on December 26, 2013. The latest tranches and corresponding ROCs as of December 31, 2014 are described below.

Table 20

<u>FX Facility Tranches (%)</u>	<u>ROC</u>
0-30	1.4
30-35	1.5
35-40	1.8
40-45	2.6
45-50	2.9
50-55	3.1
55-60	3.2

Source: Central Bank

Following the tapering signal by the U.S. Federal Reserve Board in May 2013, most emerging countries' risk premiums exhibited an upward trend until late 2013. Accompanied with domestic risk factors, the Turkish lira lost value against major currencies (e.g. US Dollar, Euro) beyond what peer emerging countries have experienced. To contain potential risks due to currency depreciation (e.g. a rise in inflation due to pass through), the CBRT has implemented additional monetary tightening and conducted unsterilized foreign exchange selling auctions (amounting to approximately U.S.\$17 billion for the whole year). There were also increases in the upper limit of the interest rate corridor in mid-2013. Further, the CBRT conducted forward guidance on the likely path of the CBRT average funding rate in fourth quarter of 2013. The CBRT announced that the rate would be close to the upper limit of the corridor until the end of the year.

In the beginning of 2014, Turkey experienced external and internal developments with strong effects on its exchange rate and risk premium. In order to contain the negative impact of these developments on inflation and macroeconomic stability, the CBRT decided at its interim MPC meeting on January 28, 2014 to deliver a strong and front-loaded monetary tightening and to simplify its operational framework. Accordingly, the marginal funding rate was raised from 7.75% to 12%, the interest rate on borrowing facilities provided for primary dealers on repo transactions within open market operations was raised from 6.75% to 11.5%, and the CBRT borrowing rate was raised from 3.5% to 8%. With regard to the simplification of the operational framework, the CBRT decided to provide liquidity from the one-week repo rate instead of the marginal funding rate, and the one-week repo rate was increased from 4.5% to 10%. This simplified framework has been kept in operation throughout 2014, with several downward revisions to the one-week repo rate and to the interest rate corridor.

During the same time period, the CBRT provided FX liquidity to the market by direct currency intervention and daily FX sale auctions. Considering the developments in FX volatility, the limits on daily FX sales were revised several times which set the minimum amount between U.S.\$10 million to U.S.\$40 million. Moreover, the CBRT announced that the required portion of the FX requirements of energy-importing SEEs would be met directly by the Undersecretariat of the Treasury and the CBRT as of December 17, 2014. In 2014, an FX amount of U.S.\$14.35 billion was sold through FX sale auctions and direct intervention.

As of December 19, 2014, ROM-based foreign exchange reserves were valued at U.S.\$33 billion (from U.S.\$34.1 billion in 2013), and the ROM-based gold reserves were valued at U.S.\$15.1 billion (an increase of U.S.\$14.8 billion from the previous year). As of August 1, 2014, the CBRT limit the foreign currencies that can be maintained for Turkish lira required that the reserves be within the scope of the Communiqué on Reserve Requirements No. 2013/15 to the U.S. dollar only. To further strengthen the Central Bank's FX reserves, the Central Bank increased the export rediscount credits limits several times during 2013 and 2014. In sum, export rediscount credits added U.S.\$12.7 billion in 2013 and U.S.\$13 billion in 2014 to the Central Bank's net international reserves. Overall, international reserves of the Central Bank reached U.S.\$127.3 billion as of the end of 2014.

In order to maintain balanced growth and capital inflows for the upcoming global monetary policy normalization, the CBRT has changed the foreign exchange deposit rates that apply to banks to borrow from the CBRT within their limits through the Foreign Exchange Deposit Market. As of October 9, 2014, the rates for one-week maturity borrowings from the CBRT as a last resort facility were reduced from 10% to 7.5% for the US Dollar and from 10% to 6.5% for the Euro. Moreover, considering the increase in banks' balance sheets and in CBRT's international reserves, it raised the banks' transaction limits at the Foreign Exchange and Banknotes Markets from U.S.\$10.8 billion to U.S.\$22.6 billion as of December 10, 2014.

The following table displays the average and the period-end rates of exchange of Turkish Lira per US Dollar, Japanese Yen and against the US Dollar-Euro currency basket:

Exchange Rates

Table 21

Period Average Year	Turkish Lira per U.S. Dollar	Turkish Lira per Euro	Turkish Lira per 100 Japanese Yen	Turkish Lira per Currency Basket(1)
2010	1.51	2.00	1.72	1.75
2011	1.68	2.33	2.11	2.01
2012	1.80	2.32	2.27	2.06
2013	1.91	2.53	2.04	2.22
2014	2.19	2.91	2.08	2.50
Period End At December 31st				
2010	1.55	2.06	1.90	1.80
2011	1.91	2.47	2.46	2.19
2012	1.79	2.36	2.08	2.08
2013	2.14	2.94	2.03	2.54
2014	2.32	2.83	1.95	2.58

(1) The basket consisting of U.S.\$0.5 and EUR0.5.

Source: CBRT

Note: CBRT's foreign exchange effective selling rates.

INTERNATIONAL LENDING

The Undersecretariat of the Turkish Treasury, together with the World Bank, launched the Country Partnership Strategy ("CPS") of Turkey on February 28, 2008 covering the period from 2008 to 2011. Under the CPS, U.S.\$7.64 billion was provided consisting of development policy loans (58%) and investment loans (42%). U.S.\$4.11 billion of this amount was secured between January 2010 and June 2011.

The current Country Partnership Strategy (Current CPS) covering the period from 2012 to 2015 was launched on March 27, 2012 with anticipated financing from the World Bank for Turkish government programs of up to U.S.\$4.45 billion during the four-year period, consisting of development policy loans (35%) and investment loans (65%).

In addition, the Current CPS provides financing for private sector investments and guarantees against non-commercial risks by the International Finance Corporation (“IFC”) and Multilateral Investment Guarantee Agency (“MIGA”), respectively. IFC and MIGA are members of the World Bank Group (“WBG”).

As of June 30, 2014, under the Current CPS, the WBG delivered financing of over U.S.\$5.5 billion, including U.S.\$ 2.7 billion from the World Bank, U.S.\$2.8 billion from the IFC and U.S.\$ 65 million from the MIGA.

The CPS Progress Report which was prepared within the context of the CPS Mid-term Review became effective on October 3, 2014. The Progress Report reviews the completed and projected activities within the Current CPS Program, including program and project financing as well as analytical studies. In the context of the CPS Mid-term Review, the Current CPS period has been extended one year until June 30, 2016.

As a result of the extension, the CPS financial package has been increased by up to U.S.\$2 billion, reaching U.S.\$6.45 billion in total, consisting of development policy loans and investment loans, which will be secured by the World Bank. In addition, the Current CPS, as extended, is expected to provide financing for private sector investments by the International Finance Corporation (IFC) between in the amount of U.S.\$600-650 million for each fiscal year 2015 and 2016. Moreover, the MIGA is also expected to increase its portfolio in Turkey.

As of December 31, 2014, U.S.\$3.85 billion (U.S.\$1.9 billion for budget financing and U.S.\$ 1.95 billion for investment financing) has been provided by the World Bank. A summary of the program and investment loans approved during the 2012-2016 period under the Current CPS are as follows:

Program Loans	Original Amount	USD Equivalent	Board Approval	Loan Agreement
Environmental Sustainability and Energy Sector (ESES) DPL3	€ 455,400,000	\$ 600,000,000	Mar 27, 2012	Apr 06, 2012
Competitiveness and Savings Development Policy Loan (CSDPL)	€ 624,100,000	\$800,000,000.	Jun 06, 2013	Jun 07, 2013
Turkey Sustaining Shared Growth DPL	€ 367,400,000	\$ 500,000,000	Jul 24, 2014	Aug 22, 2014
Investment Loans				
Private Sector Renewable Energy and Energy Efficiency Project - Add. Finance	\$ 235,000,000 € 183,600,000	\$ 500,000,000	Nov 22, 2011	Dec 5, 2011
SME Energy Efficiency	\$ 201,000,000	\$ 201,000,000	Mar 27, 2013	May 6, 2013
Third Access to Finance for SMEs (SME III)	\$ 300,000,000	\$ 300,000,000	Jun 26, 2013	Aug 22, 2013
Renewable Energy Integration	€ 217,600,000	\$ 300,000,000	May 9, 2014	Jul 10, 2014
Gas Sector Development - Add. Finance	\$ 400,000,000	\$ 400,000,000	Jul 02, 2014	Oct 02, 2014
Innovative Access to Finance	\$ 190,000,000 € 44,100,000	\$ 250,000,000	Jul 22, 2014	Aug 22, 2014

On May 17, 2010, the annual review of Turkey’s economy, referred to as an Article IV consultation, commenced with the visit of an IMF staff mission. The IMF periodically consults with each member state in order to ensure that each member state has in place a sound macroeconomic framework and corresponding policies to promote financial stability, economic growth and free exchange rates. On May 28, 2010, the IMF staff mission concluded its review

and published its preliminary conclusions, and on July 30, 2010, the Executive Board of the IMF concluded the Article IV consultation and post-program monitoring with the Republic. The Executive Board of the IMF commended Turkey for far reaching reforms and prudent fiscal policy that limited exposure and paved the way for an effective response to the global financial crisis and contributed to a robust economic recovery. The Executive Board noted that the main challenge for the Republic is containing external imbalances that could undermine the economic recovery.

On February 11, 2011, the Executive Board of the IMF concluded the Second Post-Program Monitoring Discussions with Turkey. The Executive Board welcomed the strong recovery of the Turkish economy during 2010, with output exceeding its pre-crisis level and unemployment moderating significantly, but noted the sharply widening Current Account deficit. The Executive Board stated that Turkey's main challenge is determining the right policy mix in the face of vulnerabilities arising from excessive domestic demand and volatile short-term capital flows. The Executive Board recognized that Turkey's favorable near-term growth prospects and healthy balance sheets would likely continue to attract capital inflows, but also noted that predominantly short-term capital inflows have increased the Republic's exposure to capital flow reversal and associated re-pricing risks. The Executive Board welcomed Turkey's increased focus on systemic financial-sector risk and a moderate tightening of macro-prudential measures. A number of Executive Board directors, however, called for further action in these areas. The Executive Board also encouraged progress on structural reforms to enhance competitiveness and resilience to capital inflows.

Between March 16, 2011 and April 5, 2011, an IMF staff mission visited Turkey for the Financial Sector Assessment Program (FSAP) update. FSAP assessments include a financial stability assessment, which is the responsibility of the IMF, and a financial development assessment, which is the responsibility of the World Bank. The Financial System Stability Assessment for Turkey, including the main findings of the 2011 FSAP update for Turkey, was endorsed by the IMF during the IMF Executive Board meeting on November 30, 2011 and was published on September 7, 2012.

On September 6, 2011, an IMF staff mission visited Turkey for the purpose of conducting an Article IV consultation for fiscal 2011. The IMF staff mission concluded its review on November 30, 2011, and published its staff report on January 27, 2012. The staff noted that Turkey entered the global economic crisis with stronger private and public sector balance sheets than many other countries in the region, due to institutional reforms and improved policy frameworks adopted earlier in the decade. The staff also noted that a deft macroeconomic and financial policy response during the global economic crisis enhanced policy credibility. However, an inadequate policy response to renewed capital flows caused growth to revert to its previous unbalanced path, and an overvalued real exchange rate and abundant external financing caused demand to become skewed toward imports resulting in the current account deficit widening sharply. The staff report commented on various other economic developments and policies in Turkey, including recommending structural reforms to prevent the emergence of a negative output gap as the current account is corrected.

An IMF staff mission visited Turkey between May 31 and June 6, 2012 to discuss recent economic developments and preparations for the 2012 Article IV consultation discussions. In their conclusion statement, the IMF staff stated that the economy is decelerating toward a soft landing, thus the imbalances built over the last two years are diminishing.

During the G-20 meeting held in Los Cabos on June 18-19, 2012, Turkey declared its commitment to contributing to global financial stability by increasing the resources of the IMF. On June 19, 2012, it was announced that the Central Bank of the Republic of Turkey will contribute up to U.S.\$5 billion to the IMF, to be counted as part of its international reserves. The note purchase agreement between the IMF and the Central Bank of the Republic of Turkey became effective on October 17, 2013.

On September 13, 2012, the IMF staff mission visited Turkey in the context of 2012 Article IV consultations. The IMF staff mission concluded its review on September 26, 2012, and published its staff report on December 21, 2012. In its report the staff noted that Turkish authorities set the stage for more sustainable and balanced growth in 2012, accompanied by declines in the Current Account deficit and inflation. The staff also emphasized the importance of the tighter fiscal policy proposed in the Republic of Turkey's 2013 budget. They also noted that in the current environment of volatile capital flows, the Central Bank's more flexible policy framework served the Turkish economy well. Additionally, the staff explained that the Turkish banks appear well-positioned for the introduction of Basel III.

After the last payment on May 14, 2013, Turkey's outstanding debt to the IMF due to the Stand-by Arrangements was settled.

Between September 19, 2013 and October 1, 2013, the IMF mission visited Turkey as part of the annual Article IV consultations. On November 20, 2013, the Executive Board of the IMF concluded the Article IV consultation with Turkey and the staff report was published on December 20, 2013. In its report the staff noted that the economic activity accelerated and domestic demand got stronger. However, these improvements came with a deteriorating external account and inflation remaining above target. The staff underlined that monetary stance should be tightened and the monetary policy framework should be normalized with a clearer focus on inflation. On fiscal policy, while mentioning that the fiscal targets for 2013 are on track to be met, the staff noted that the fiscal stance was expansionary and should be reined in. They also stated that increasing national savings and improving competitiveness were central to addressing vulnerabilities, which would require ambitious medium-term fiscal targets and comprehensive structural reforms. In addition, the report praised the sound performance of the Turkish financial system, while advising against downside risks.

The IMF mission visited Turkey again from April 24 to April 30, 2014 in preparation for the 2014 Article IV regular consultations. No press release was issued following the mission's visit.

Between September 11 and 24, 2014, the IMF mission visited Turkey to hold discussions for the 2014 Article IV regular consultation. On November 21, 2014, the Executive Board of the IMF concluded the Article IV consultation with Turkey and the staff report was published on December 5, 2014. In its report, the staff noted that Turkey's economy has grown by 6% on average since 2010, which was a significant achievement. However, low national saving and competitiveness challenges are constraining investment and exports. The staff also noted that monetary policy needs to focus on the inflation target, and macro prudential policies should also be reinforced. The staff commended the fact that the financial system remains well capitalized and capital adequacy ratios are high on average, and mostly based on high quality capital, while noting that a tighter fiscal stance would contribute to reducing the external imbalance and relieving pressure on monetary policy.

In 2010, the Islamic Development Bank Group (IDBG) approved the Member Country Partnership Strategy for the Republic of Turkey, which is the first strategy document ever approved by the IDBG. Within the scope of the Strategy, the IDBG provided €2.2 billion of financing for projects in Turkey during the period covered by the Strategy, namely 2010-2013. As of the end of 2014, IDBG has provided U.S.\$2.7 billion of financing for projects in Turkey for the period 2010-2014.

As one of the founding members, Turkey became a recipient country of the EBRD in 2008. As of the end of 2014, EBRD has provided €4.7 billion of financing for projects in Turkey, mostly in the private sector. The annual bank investment (signed operations) of EBRD in Turkey was €1.37 billion in 2014. As EBRD suspended its operations in Russia in 2014, Turkey became first among countries invested in by the EBRD in terms of loan volume in 2014. Accordingly, the EBRD operations in Turkey are expected to reach €2 billion in 2015. The EBRD has demonstrated its confidence in the future of the Turkish economy by making its EBRD Office in Istanbul a regional hub, covering the Central Asian operations of the EBRD as well. In addition, the EBRD opened another office in Gaziantep in September of 2014.

Turkey is one of the founding members of the Black Sea Trade and Development Bank (BSTDB). The BSTDB has provided €147.7 million of financing for projects in Turkey between 2010 and 2014. According to the 2015-2018 Country Strategy, the BSTDB plans to invest approximately €37 to €55 million per year in Turkey.

The Republic signed a total of €650 million, €920 million, €1.1 billion, €1.5 billion and €1.1 billion worth of various financing agreements with the European Investment Bank in 2010, 2011, 2012, 2013 and 2014, respectively.

Turkey is one of the founding members of the Council of Europe Development Bank (CEB). The CEB provided €730 million of financing for projects in Turkey from 2010 to 2014.

FOREIGN TRADE AND BALANCE OF PAYMENTS

FOREIGN TRADE

Turkey has increasingly diversified its export products and markets, with industrial products claiming an increasing share of total exports. In 2009, the increasing trend in exports was interrupted by the global economic crisis as Turkey's trade partners went into serious economic recession. Therefore, Turkish export performance was hit by reduced export demand from countries, especially in the EU and decreased by approximately 22.6% in 2009, compared to the previous year.

In 2010, total exports were U.S.\$113.9 billion, an 11.5% increase when compared to 2009. In 2011, exports increased by 18.5% to U.S.\$134.9 billion. In 2012, exports increased by 13% to U.S.\$152.5 billion and in 2013, exports decreased by 0.4% to U.S.\$151.8 billion. In 2014, exports increased by 3.8% to U.S.\$157.6 billion. In the meantime, because domestic demand also increased, import demand increased considerably by 31.7% and 29.8% in 2010 and 2011 respectively. Since imports increased more than exports, the trade deficit and hence the current account deficit also increased and reached pre-crisis levels. While the trade deficit (including shuttle trade) and the current account deficit were U.S.\$53.0 billion and U.S.\$40.2 billion in 2008 respectively, the trade deficit increased significantly to U.S.\$56.3 billion and the current account deficit increased to U.S.\$45.3 billion in 2010, U.S.\$89.2 billion and U.S.\$75 billion respectively in 2011 and the trade deficit and the current account deficit U.S.\$65.4 billion and U.S.\$48.5 billion respectively in 2012. The trade deficit and the current account deficit were U.S.\$79.9 billion and U.S.\$64.7 billion respectively in 2013, U.S.\$63.6 billion and U.S.\$46.5 billion respectively in 2014. The increase in imports stemmed partly from the increase in energy prices and partly from the expansion in economic activity.

The composition of exports has shifted substantially from agricultural products to industrial products. Industrial exports accounted for 95% of total exports in 2008 while the share of agricultural products was 3%. In 2013, this outlook did not change significantly. In addition to traditional export goods such as textiles and clothing products, food products and beverages, rubber and plastic products, metal products, machinery and equipment, electrical machinery and apparatus, motor vehicles and trailers, other transportation and furniture have been gaining greater importance. In 2013, while textiles and clothing products increased 8.8% to U.S.\$27.4 billion, exports of food products and beverages, rubber and plastic products, basic metals, machinery and equipment, electrical machinery and apparatus, motor vehicles and trailers, other transportation and furniture decreased by 6.4% to U.S.\$75.0 billion. In 2014, textiles and clothing products increased 6.4% to U.S.\$29.2 billion. Additionally, exports of food products and beverages, rubber and plastic products, basic metals, machinery and equipment, electrical machinery and apparatus, motor vehicles and trailers, other transportation and furniture decreased by 4.4% to U.S.\$78.1 billion.

Turkey entered into the Customs Union with the EU in 1996. Within this context, customs duties for all industrial products imported from the EU were abolished and the Common Customs Tariff of the EU was adopted. In the case of processed agricultural products, the EU and Turkey have agreed upon the establishment of a system in which Turkey differentiates between the agricultural and industrial components of the duties applicable to these products. Accordingly, Turkey has abolished the duties applicable to the industrial component for products originating in EU and EFTA countries, while duties applicable to the agricultural products still apply. However, the EU has granted customs duty concessions for a number of Turkish products, and Turkey has extended to the EU the limited concessions that it allows to EFTA countries. Within the framework of this agreement, customs duties for ECSC products originating in the EU and EFTA countries were gradually decreased and were fully abolished in January 1999.

In order to comply with the common commercial policy of the EU in the textile and clothing sector, Turkey has harmonized its legislation to the EU's quota and surveillance measures for that sector. A decree on state aid has also been brought into force in line with EU state aid regulations, limiting the scope of state aid to research and development, environmental protection, market research, training activities, refunds on agricultural products and other aid compatible with Turkey's obligations under multinational agreements.

Turkey's principal trading partners have traditionally been EU member countries. In 2013, EU member countries accounted for 41.5% of total exports and 37.7% of total imports. The largest total export market for Turkish products was Germany, which accounted for 9% of total exports in 2013 compared to 8.6% in 2012. In 2014, EU member countries accounted for 43.5% of total exports and 36.7% of total imports. In addition, the largest total export market for Turkish products was Germany, which accounted for 9.6% of total exports in 2014 compared to 9.0% in 2013.

To date, Turkey has made the most progress in aligning itself with the preferential agreements of the EC and has signed 15 numerous trade agreements that include Central and Eastern European countries, EFTA countries and Israel and there are still several agreements to be concluded with other countries. As a part of this process, Turkey has also adopted the EU's General System of Preferences ("GSP") towards the lesser developed countries. Turkey's adoption of the EU's preferential agreements enables it to participate in the EU trade arrangements with Central and Eastern European and Mediterranean countries. Turkey was integrated in the Pan-European Cumulation of Origin effective as of January 1, 1999. The free trade agreements that have been executed and Turkey's participation in the Pan-European Cumulation of Origin are expected to further diversify the composition and destination of Turkish exports.

The following table presents Turkey's total imports, exports and terms of trade for the years indicated:

Table 22

Terms of Trade-Foreign Trade, Value, Volume

	2010	2011	2012	2013	2014
Exports f.o.b (1)	113.9	134.9	152.5	151.8	157.6
Imports c.i.f (2)	185.5	240.8	236.5	251.7	242.2
Consumption goods	24.7	29.7	26.7	30.4	29.0
Capital goods	28.8	37.3	33.9	36.8	36.0
Intermediate goods	131.4	173.1	174.9	183.8	176.7
Total Exports					
Value	11.5	18.5	13.0	-0.4	3.8
Price	3.4	11.5	-2.7	0.1	-1.4
Volume(3)	7.9	6.4	16.2	-0.5	5.3
Total Imports(2)					
Value	31.7	29.8	-1.8	6.4	-3.8
Price	8.4	14.9	-2.6	-1.6	-2.9
Volume(3)	21.4	13.1	0.9	8.2	-0.9
Terms of Trade	-4.6	-3.0	-0.4	1.4	2.1

Source: TURKSTAT

(1) Excluding transit trade and shuttle trade.

(2) Excluding transit trade and non-monetary gold.

(3) Volume changes are obtained by dividing value changes by price changes.

[illegible]

Wholesale and retail trade									
Waste and scrap	451,656	631,901	534,800	605,984	672,861	39.9	-15.4	13.3	11.0
	451,656	631,901	534,800	605,984	672,861	39.9	-15.4	13.3	11.0

Real estate, renting and business activities									
Other business activities	2,037	583	544	3,422	2,556	-71.4	-6.7	529.3	-25.3
	2,037	583	544	3,422	2,556	-71.4	-6.7	529.3	-25.3
Other community, social and personal service activities									
Recreational, cultural and sporting activities	3,617	4,997	2,307	15,113	4,043	38.1	-53.8	555.2	-73.3
Other service activities	3,617	4,996	2,286	15,107	4,024	38.1	-54.2	560.8	-73.4
	0	1	21	6	18	427.3	1880.5	-68.6	183.3
Total	113,883,219	134,906,869	152,461,737	151,802,637	157,614,412	18.5	13.0	-0.4	3.8

* Excluding shuttle and transit trade

Source: TURKSTAT

Turkey has taken the lead in the establishment of the Black Sea Economic Cooperation Zone, which is intended to create a regional trade organization for the 11 countries surrounding the Black Sea. With the participation of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian, Serbia, Ukraine and Turkey, the Black Sea Trade and Development Bank has been established to promote economic prosperity and promote regional projects in the area. Turkey has also embarked on efforts to develop new export markets in countries with which Turkey has not traditionally traded. See "Description of Turkey—International Organizations."

The following table presents Turkey's exports by country for the periods indicated:

Table 24

	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Total	113,883,219	134,906,869	152,461,737	151,802,637	157,614,412	100	100	100	100	100
A-European Union (EU 28)	52,934,452	62,589,257	59,398,377	63,039,810	68,516,759	46.5	46.4	39.0	41.5	43.5
B-Free Zones in Turkey	2,083,788	2,544,721	2,294,934	2,412,824	2,269,847	1.8	1.9	1.5	1.6	1.4
C-Other countries	58,864,980	69,772,890	90,768,426	86,350,002	86,827,807	51.7	51.7	59.5	56.9	55.1
1-Other European Countries	11,124,225	12,734,548	14,166,917	14,213,880	15,184,568	9.8	9.4	9.3	9.4	9.6
2-North African Countries	7,025,168	6,700,805	9,443,604	10,041,750	9,758,254	6.2	5.0	6.2	6.6	6.2
3-Other African Countries	2,257,898	3,633,016	3,913,246	4,103,794	3,996,487	2.0	2.7	2.6	2.7	2.5
4-North American Countries	4,242,435	5,459,299	6,662,554	6,580,293	7,292,336	3.7	4.0	4.4	4.3	4.6
5-Central America and Caraiaps	597,975	626,293	769,630	1,004,173	938,033	0.5	0.5	0.5	0.7	0.6
6-South American Countries	1,237,356	1,840,351	2,191,084	2,126,991	1,852,385	1.1	1.4	1.4	1.4	1.2
7-Near and Middle Eastern	23,294,873	27,934,772	42,451,153	35,574,660	35,384,093	20.5	20.7	27.8	23.4	22.4

8-Other Asian Countries	8,580,833	10,199,361	10,574,649	12,016,838	11,591,103	7.5	7.6	6.9	7.9	7.4
9-Australia and New Zealand	402,591	480,755	490,339	538,473	600,042	0.4	0.4	0.3	0.4	0.4
10-Other Countries	101,627	163,690	105,250	149,150	230,507	0.1	0.1	0.1	0.1	0.1

D-Selected country groups										
1-OECD Countries	57,394,215	67,113,921	66,289,740	68,683,836	76,677,104	50.4	49.7	43.5	45.2	48.6
2- EFTA Countries	2,416,381	1,887,252	2,601,134	1,661,908	3,795,180	2.1	1.4	1.7	1.1	2.4
3-Organization of the Blacksea Economic Cooperation	14,456,173	17,767,964	18,791,305	20,367,992	19,687,841	12.7	13.2	12.3	13.4	12.5
4- Organization for Economic Cooperation	7,617,077	9,291,735	16,563,295	11,898,400	11,717,431	6.7	6.9	10.9	7.8	7.4
5- Commonwealth of Independent States	10,288,272	13,376,636	15,074,703	16,924,418	15,617,110	9.0	9.9	9.9	11.1	9.9
6-Turkish Republics	3,921,072	5,039,884	5,840,703	6,908,137	7,108,346	3.4	3.7	3.8	4.6	4.5
7-Organization of Islamic Cooperation	32,469,556	37,325,434	55,218,487	49,370,615	48,626,264	28.5	27.7	36.2	32.5	30.9
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Total	113,883,219	134,906,868	152,461,737	151,802,637	157,614,412	100	100	100	100	100
Germany	1,179,066	13,950,825	13,124,375	13,702,577	15,147,995	10.1	10.3	8.6	9.0	9.6
Iraq	6,036,362	8,310,130	10,822,144	11,948,905	10,887,848	5.3	6.2	7.1	7.9	6.9
United Kingdom	7,235,861	8,151,430	8,693,599	8,785,124	9,903,435	6.4	6.0	5.7	5.8	6.3
Italy	6,505,277	7,851,480	6,373,080	6,718,355	7,141,223	5.7	5.8	4.2	4.4	4.5
France	6,054,499	6,805,821	6,198,536	6,376,704	6,464,460	5.3	5.0	4.1	4.2	4.1
USA	3,762,919	4,584,029	5,604,230	5,640,247	6,341,841	3.3	3.4	3.7	3.7	4.0
Russia	4,628,153	5,992,633	6,680,777	6,964,209	5,943,045	4.1	4.4	4.4	4.6	3.8
Spain	3,536,205	3,917,559	3,717,345	4,334,196	4,749,947	3.1	2.9	2.4	2.9	3.0
UAE	3,332,885	3,706,654	8,174,607	4,965,630	4,655,710	2.9	2.7	5.4	3.3	3.0
Iran	3,044,177	3,589,635	9,921,602	4,192,511	3,886,190	2.7	2.7	6.5	2.8	2.5
Netherlands	2,461,371	3,243,080	3,244,429	3,538,043	3,458,764	2.2	2.4	2.1	2.3	2.2
Egypt	2,250,577	2,759,311	3,679,195	3,200,362	3,297,857	2.0	2.0	2.4	2.1	2.1
Switzerland	2,056,860	1,484,320	2,124,525	1,014,523	3,207,526	1.8	1.1	1.4	0.7	2.0
Saudi Arabia	2,217,646	2,763,476	3,676,612	3,191,482	3,047,134	1.9	2.0	2.4	2.1	1.9
Romania	2,599,380	2,878,760	2,495,427	2,616,313	3,008,204	2.3	2.1	1.6	1.7	1.9
Israel	2,080,148	2,391,148	2,329,531	2,649,663	2,950,902	1.8	1.8	1.5	1.7	1.9
Belgium	1,960,441	2,451,030	2,359,575	2,573,804	2,939,109	1.7	1.8	1.5	1.7	1.9
Azerbaijan	1,550,479	2,063,996	2,584,671	2,960,371	2,874,859	1.4	1.5	1.7	2.0	1.8
China	2,269,175	2,466,316	2,833,255	3,600,865	2,861,136	2.0	1.8	1.9	2.4	1.8
Poland	1,504,280	1,758,252	1,853,700	2,058,857	2,401,795	1.3	1.3	1.2	1.4	1.5
Others	37,317,457	43,786,983	45,970,523	50,769,896	52,445,432	32.8	32.5	30.2	33.4	33.3

(1) Countries are ranked by 2014 figures.

Source: TURKSTAT

The value of imports increased from approximately U.S.\$7.9 billion in 1980 to approximately U.S.\$202 billion in 2008. However, with the global economic crisis the value of imports fell significantly to U.S.\$140.9 billion in 2009 and the EU accounted for 40.1% of Turkey's total imports. In 2010, the value of imports increased to U.S.\$185.5 billion and the EU accounted for 38.9% of Turkey's total imports. In 2011, the value of imports increased to U.S.\$240.8 billion and EU share in Turkey's import was 37.8%. In 2012, the

value of imports increased to U.S.\$236.5 billion and EU share in Turkey's import was 37%. In 2013, the value of imports increased to U.S.\$251.7 billion and EU share in Turkey's import was 36.7%. In 2014, the value of imports increased to U.S.\$242.2 billion and EU share in Turkey's import was 36.7%.

In 2013 and 2014, of the main commodity groups, the share of intermediate goods in total imports was 73.0%, while the shares of capital goods and consumption goods in total imports were 13.5% and 12.1%, respectively.

The following table presents the composition (by Broad Economic Classification) of Turkey's imports (other than non-monetary gold) by sector of trade for the periods indicated:

Table 25

(In Million Dollars, and % changes)

	2010	2011	2012	2013	2014	2011/10	2012/11	2013/12	2014/13
Total	185,544,332	240,841,676	236,545,141	251,661,250	242,177,117	29.8	-1.8	6.4	-3.8
Capital goods	28,818,242	37,270,611	33,925,389	36,771,127	35,995,907	29.3	-9.0	8.4	-2.1
Capital goods (except transportations vehicles)	23,249,739	29,605,450	28,125,442	32,034,334	30,437,762	27.3	-5.0	13.9	-5.0
Transportation vehicles incidental to industry	5,568,503	7,665,161	5,799,947	4,736,793	5,558,145	37.7	-24.3	-18.3	17.3
Intermediate goods	131,445,426	173,140,243	174,930,331	183,811,325	176,721,669	31.7	1.0	5.1	-3.9
Unprocessed materials incidental to industry	12,258,723	16,159,591	15,344,073	13,926,322	13,298,987	31.8	-5.0	-9.2	-4.5
Processed materials incidental to industry	58,733,015	75,482,185	73,612,072	85,896,095	78,849,939	28.5	-2.5	16.7	-8.2
Unprocessed fuels and oils	1,175,578	1,303,880	1,161,641	923,019	847,099	10.9	-10.9	-20.5	-8.2
Parts of investment goods	9,064,329	10,861,237	10,949,032	12,411,705	12,152,091	19.8	0.8	13.4	-2.1
Parts of transportation vehicles	10,580,626	12,334,237	11,128,565	11,890,116	12,187,234	16.6	-9.8	6.8	2.5
Unprocessed materials of food and beverages	2,793,978	4,379,477	3,703,383	3,414,093	4,289,973	56.7	-15.4	-7.8	25.7
Processed materials of food and beverages	1,112,756	1,793,844	2,137,069	2,244,379	2,628,359	61.2	19.1	5.0	17.1
Processed fuels and oils	12,223,206	16,433,500	17,423,952	17,425,970	17,702,419	34.4	6.0	0.0	1.6
Confidential data	23,503,217	34,392,292	39,470,543	35,679,626	34,765,569	46.3	14.8	-9.6	-2.6
Consumption goods	24,734,930	29,692,268	26,699,252	30,415,894	29,006,394	20.0	-10.1	13.9	-4.6
Automobiles	6,819,601	8,474,787	7,248,447	9,126,820	7,717,928	24.3	-14.5	25.9	-15.4
Durable consumption goods	3,499,191	4,337,380	4,352,554	4,962,452	4,663,920	24.0	0.3	14.0	-6.0
Semi-durable consumption goods	5,303,231	6,452,876	5,893,362	6,794,659	6,912,899	21.7	-8.7	15.3	1.7
Non-durable consumption goods	5,531,250	5,894,846	5,177,291	5,392,162	5,642,136	6.6	-12.2	4.2	4.6
Unprocessed of food and beverages	675,953	813,826	808,512	844,854	978,762	20.4	-0.7	4.5	15.8
Processed of food and beverages	1,365,553	1,816,157	1,387,324	1,619,087	1,778,299	33.0	-23.6	16.7	9.8
Gasoline	1,343,232	1,662,262	1,674,633	1,415,040	1,048,594	23.8	0.7	-15.5	-25.9
Transportation vehicles not incidental to industry	196,918	240,134	157,128	260,819	263,857	21.9	-34.6	66.0	1.2
Others	545,734	738,555	990,170	662,904	453,147	35.3	34.1	-33.1	-31.6
Other goods not elsewhere specified	545,734	738,555	990,170	662,904	453,147	35.3	34.1	-33.1	-31.6

Source: Ministry of Development

The following table presents imports (other than non-monetary gold) by country or region of origin for the periods indicated:

Table 26

	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Total	185,544,332	240,841,676	236,545,141	251,661,250	242,177,117	100	100	100	100	100
A-European Union (EU 28)	72,391,053	91,439,406	87,657,462	92,457,992	88,783,651	39.0	38.0	37.1	36.7	36.7
B-Free Zones in Turkey	878,447	1,038,057	1,045,827	1,267,869	1,260,771	0.5	0.4	0.4	0.5	0.5
C-Other countries	112,274,832	148,364,213	147,841,852	157,935,389	152,132,695	60.5	61.6	62.5	62.8	62.8
1-Other European Countries	30,101,101	35,668,228	37,206,446	41,319,229	36,367,325	16.2	14.8	15.7	16.4	15.0
2-North African Countries	3,098,091	3,342,055	3,308,343	3,508,479	3,435,769	1.7	1.4	1.4	1.4	1.4
3-Other African Countries	1,725,916	3,424,658	2,613,447	2,522,630	2,502,192	0.9	1.4	1.1	1.0	1.0
4-North American Countries	13,234,069	17,345,670	15,084,268	13,952,865	13,834,992	7.1	7.2	6.4	5.5	5.7
5-Central America and Caraibs	622,763	903,455	1,069,126	1,362,167	1,123,835	0.3	0.4	0.5	0.5	0.5
6-South American Countries	2,942,329	4,500,367	4,079,580	3,665,676	3,934,733	1.6	1.9	1.7	1.5	1.6
7-Near and Middle Eastern	13,010,828	20,439,413	21,410,008	22,214,051	20,480,465	7.0	8.5	9.1	8.8	8.5
8-Other Asian Countries	40,343,434	53,143,945	49,602,022	54,648,319	56,162,293	21.7	22.1	21.0	21.7	23.2
9-Australia and New Zealand	493,033	806,922	861,022	1,318,247	637,678	0.3	0.3	0.4	0.5	0.3
10-Other Countries	6,703,268	8,789,500	12,607,589	13,423,725	13,653,413	3.6	3.6	5.3	5.3	5.6
D-Selected country groups										
1-OECD Countries	94,162,761	121,327,626	113,723,573	124,206,736	116,518,208	50.7	50.4	48.1	49.4	48.1
2- EFTA Countries	4,002,407	5,845,716	5,238,265	10,652,294	5,716,743	2.2	2.4	2.2	4.2	2.4
3-Organization of the Blacksea Economic Cooperation	32,979,705	38,770,165	41,509,519	41,270,643	40,926,921	17.8	16.1	17.5	16.4	16.9
4- Organization for Economic Cooperation	11,607,394	17,305,837	16,429,472	14,802,005	13,443,503	6.3	7.2	6.9	5.9	5.6
5-Commonwealth of Independent States	28,908,734	33,159,169	35,248,191	34,000,176	33,085,484	15.6	13.8	14.9	13.5	13.7
6-Turkish Republics	2,923,668	3,642,096	3,558,042	3,600,058	2,997,231	1.6	1.5	1.5	1.4	1.2
7-Organization of Islamic Cooperation	22,200,530	31,417,773	31,690,284	32,074,294	29,107,197	12.0	13.0	13.4	12.7	12.0
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Total	185,544,332	240,841,676	236,545,141	251,661,250	242,177,117	100	100	100	100	100
Russia	21,600,641	23,952,914	26,625,286	25,064,214	25,288,597	11.6	9.9	11.3	10.0	10.4
China	17,180,806	21,693,336	21,295,242	24,685,885	24,918,224	9.3	9.0	9.0	9.8	10.3
Germany	17,549,112	22,985,567	21,400,614	24,182,422	22,369,476	9.5	9.5	9.0	9.6	9.2
USA	12,318,745	16,034,121	14,130,546	12,596,170	12,727,562	6.6	6.7	6.0	5.0	5.3
Italy	10,139,888	13,449,861	13,344,468	12,884,864	12,055,972	5.5	5.6	5.6	5.1	5.0
Iran	7,645,008	12,461,532	11,964,779	10,383,217	9,833,290	4.1	5.2	5.1	4.1	4.1
France	8,176,600	9,229,558	8,589,896	8,079,840	8,122,571	4.4	3.8	3.6	3.2	3.4

South Korea	4,764,057	6,298,483	5,660,093	6,088,318	7,548,319	2.6	2.6	2.4	2.4	3.1
India	3,409,938	6,498,651	5,843,638	6,367,791	6,898,577	1.8	2.7	2.5	2.5	2.8
Spain	4,840,062	6,196,452	6,023,625	6,417,719	6,075,843	2.6	2.6	2.5	2.6	2.5
United Kingdom	4,680,611	5,840,380	5,629,455	6,281,414	5,932,227	2.5	2.4	2.4	2.5	2.4
Switzerland	3,153,702	5,018,977	4,304,864	9,645,289	4,821,031	1.7	2.1	1.8	3.8	2.0
Ukraine	3,832,744	4,812,060	4,394,200	4,516,333	4,242,612	2.1	2.0	1.9	1.8	1.8
Greece	1,541,600	2,568,826	3,539,869	4,206,020	4,043,839	0.8	1.1	1.5	1.7	1.7
Belgium	3,213,606	3,959,279	3,690,309	3,843,376	3,863,892	1.7	1.6	1.6	1.5	1.6
Netherlands	3,156,000	4,004,955	3,660,634	3,363,585	3,517,164	1.7	1.7	1.5	1.3	1.5
Romania	3,449,195	3,801,297	3,236,425	3,592,568	3,363,233	1.9	1.6	1.4	1.4	1.4
UAE	698,421	1,649,456	3,596,545	5,384,468	3,253,024	0.4	0.7	1.5	2.1	1.3
Japan	3,297,796	4,263,730	3,601,427	3,453,190	3,199,915	1.8	1.8	1.5	1.4	1.3
Poland	2,620,956	3,496,189	3,058,078	3,184,533	3,082,128	1.4	1.5	1.3	1.3	1.3
Others	48,274,844	62,626,053	62,955,148	67,440,035	67,019,620	26.0	26.0	26.6	26.8	27.7

(1) Countries are ranged by 2014 figures.

Source: TURKSTAT, Ministry of Development

In 2011, Turkey's net international reserves were approximately U.S.\$110.5 billion. In 2011, gross foreign exchange reserves of the Central Bank were approximately U.S.\$78.5 billion and commercial banks and special finance house gross foreign exchange reserves (excluding gold and securities portfolio) were approximately U.S.\$22.2 billion. In 2011, net portfolio outflow from Turkey was U.S.\$1.8 billion, compared to a U.S.\$2.2 billion outflow in 2010.

In 2012, Turkey's net international reserves were approximately U.S.\$137.5 billion. In 2012, gross foreign exchange reserves of the Central Bank were approximately U.S.\$100 billion and commercial banks and special finance house gross foreign exchange reserves (excluding gold and securities portfolio) were approximately U.S.\$18.3 billion. In 2012, net portfolio outflow from Turkey was U.S.\$1.3 billion, compared to a U.S.\$1.8 billion outflow in 2011.

In 2013, Turkey's net international reserves were approximately U.S.\$147.9 billion. In 2013, gross foreign exchange reserves of the Central Bank were approximately U.S.\$110.9 billion and commercial banks and special finance house gross foreign exchange reserves (excluding gold and securities portfolio) were approximately U.S.\$16.9 billion. In 2013, net portfolio outflow from Turkey was U.S.\$1.0 billion, compared to a U.S.\$1.3 billion outflow in 2012.

In 2014, Turkey's net international reserves were approximately U.S.\$141.8 billion. In 2014, gross foreign exchange reserves of the Central Bank were approximately U.S.\$106.9 billion and commercial banks and special finance house gross foreign exchange reserves (excluding gold and securities portfolio) were approximately U.S.\$14.5 billion. In 2014, net portfolio outflow from Turkey was U.S.\$1.4 billion, compared to a U.S.\$1 billion outflow in 2013.

OTHER GOODS, SERVICES AND INCOME

In addition to merchandise exports and imports, Turkey's current account is composed of earnings from other goods, services and income. This item includes tourism revenues, interest earnings and other invisible revenues, such as earnings from shipment and transportation, investment income, contractors' earnings and other official and private services (a residual category).

In 2011, Turkey's tourism revenues increased by 10.9% to U.S.\$25.1 billion. See "Economy—Services—Tourism." In addition, earnings from primary income were U.S.\$4 billion in 2011, compared to U.S.\$4.5 billion in 2010.

Turkey's receipts from all services amounted to approximately U.S.\$40.9 billion in 2011, which represented an increase of 12.9% from 2010. Secondary income amounted to U.S.\$1.9 billion in 2011. On the other hand, the debit for all services and income account amounted to approximately U.S.\$32.5 billion (\$11.8 billion from income) in 2011, representing an increase of 5.8% (an increase of 1% for primary income) from 2010.

In 2012, Turkey's tourism revenues increased by 1.2% to U.S.\$25.3 billion. See "Economy—Services—Tourism." In addition, earnings from primary income were U.S.\$5 billion in 2012, compared to U.S.\$4 billion in 2011.

Turkey's receipts from all services amounted to approximately U.S.\$43.2 billion in 2012, which represented an increase of 5.8% from 2011. Secondary income amounted to U.S.\$1.6 billion in 2012. On the other hand, the debit for all services and income account amounted to approximately U.S.\$33 billion (\$12.2 billion from primary income) in 2012, representing an increase of 1.4% (an increase of 3.3% for primary income) from 2011.

In 2013, Turkey's tourism revenues increased by 10.5% to U.S.\$28 billion. See "Economy—Services—Tourism." In addition, earnings from primary income were U.S.\$4.5 billion in 2013, compared to U.S.\$5.0 billion in 2012.

Turkey's receipts from all services amounted to approximately U.S.\$46.6 billion in 2013, which represented an increase of 7.8% from 2012. Secondary income amounted to U.S.\$1.4 billion in 2013. On the other hand, the debit for all services and income account amounted to approximately U.S.\$37.3 billion (\$13.5 billion from primary income) in 2013, representing an increase of 13% (an increase of 10.8% for primary income) from 2012.

In 2014, Turkey's tourism revenues increased by 5.6% to U.S.\$29.6 billion. See "Economy—Services—Tourism." In addition, earnings from primary income were U.S.\$4.3 billion in 2014, compared to U.S.\$4.5 billion in 2013.

Turkey's receipts from all services amounted to approximately U.S.\$50.4 billion in 2014, which represented an increase of 8.1% from 2013. Secondary income amounted to U.S.\$1.1 billion in 2014. On the other hand, the debit for all services and income account amounted to approximately U.S.\$38.7 billion (\$13.5 billion from primary income) in 2014, representing an increase of 3.7% (a decrease of 0.3% for primary income) from 2013.

BALANCE OF PAYMENTS

The following table summarizes the balance of payments of Turkey for the periods indicated:

Table 27

in millions of US dollar	2010	2011	2012	2013	2014
CURRENT ACCOUNT	-45.312	-75.008	-48.535	-64.658	-46.516
Trade Balance	-56.325	-89.160	-65.367	-79.907	-63.579
Goods Exports	120.992	142.392	161.948	161.789	168.931
Goods Imports	177.317	231.552	227.315	241.696	232.510
Services	16.594	20.120	22.427	22.844	25.175
Credit	36.192	40.851	43.224	46.615	50.375
Travel receipts	22.585	25.054	25.345	27.997	29.552
Debit	19.598	20.731	20.797	23.771	25.200
Primary Income	-7.212	-7.855	-7.163	-8.986	-9.219
Credit	4.478	3.952	5.034	4.524	4.256
Interest Income	1.094	1.207	2.054	1.778	1.666
Debit	11.690	11.807	12.197	13.510	13.475
Interest Expenditure	5.502	5.289	5.829	5.782	5.699
Secondary Income	1.631	1.887	1.568	1.391	1.107
General Government	563	794	558	643	175
Other Sectors	1.068	1.093	1.010	748	932
Workers' Remittances	948	1.045	975	877	838

CAPITAL ACCOUNT	-51	-25	-58	-96	-66
FINANCIAL ACCOUNT	-45.131	-66.025	-48.247	-61.958	-42.937
Direct Investment (net)	-7.617	-13.806	-9.177	-8.830	-5.492
Portfolio Investment (net)	-16.083	-22.204	-41.012	-23.986	-20.109
Assets	3.534	-2.688	-2.657	-2.601	741
Liabilities	19.617	19.516	38.355	21.385	20.850
Equity Securities	3.468	-985	6.276	842	2.559
Debt Securities	16.149	20.501	32.079	20.543	18.291
General Government	14.797	17.326	21.658	8.754	4.572
In Turkey	10.715	14.805	16.835	4.133	370
Abroad	4.082	2.521	4.823	4.621	4.202
Other Investment (net)	-34.240	-28.202	-18.872	-39.053	-16.868
Assets	-7.020	-11.197	703	-2.370	1.671
Liabilities	27.220	17.005	19.575	36.683	18.539
Loans	-10.354	-18.070	-9.500	-21.234	-14.988
Monetary Authority	0	0	0	0	0
General Government	1.498	-767	-2.099	-870	-891
Banks	12.900	12.511	5.960	21.636	11.790
Other Sectors	-3.616	7.086	6.456	1.099	5.952
Deposits	13.837	-4.308	7.799	8.633	896
in Monetary Authority	-503	-1.915	-2.243	-2.000	-2.333
in Banks	14.340	-2.393	10.042	10.633	3.229
Reserve Assets	12.809	-1.813	20.814	9.911	-468
NET ERRORS AND OMISSIONS	232	9.008	346	2.796	3.645

Source: CBRT

CURRENT ACCOUNT

Although external demand remained weak amid Europe's sovereign debt problems, domestic demand grew at a relatively steady pace, leading to a large increase in the foreign trade deficit during 2010. After declining year-on-year due to the global recession and falling commodity prices in 2009, foreign trade prices increased in 2010. Specifically, due to the sharp rise in commodity prices during the second half of 2010, prices of imports increased at a faster pace than prices of exports, leading to a significant deterioration in the terms of trade. Net services revenues dropped by 10.5% year-on-year in 2010 due to the widening foreign trade deficit and the rapid increase in service expenditures, causing the current account deficit to expand. Despite the increased number of tourists in 2010 as compared to 2009, the fall in average expenditures, tourism revenues went down by 1.7% in 2010. Furthermore, transportation costs continued to rise due to rising imports. Thus, the Current Account deficit increased to U.S.\$45.4 billion in 2010 (6.2% of GDP).

In the post-crisis recovery period, the Turkish economy followed a robust course, with domestic and external demand displaying divergences in terms of their speed of recovery. Accordingly, imports surged amid robust domestic demand in 2011; whereas, exports exhibited only a mild recovery due to relatively weak external demand. Despite the evident slowdown in imports owing to the policy measures adopted in the second half of the year to balance domestic and external demand, the foreign trade deficit continued to grow in 2011. Consequently, balance-of-payments-defined total exports and imports of goods registered annual increases by 17.7% and 30.6%, respectively, and reached U.S.\$143.4 billion, and U.S.\$232.5 billion, respectively. As a result, the foreign trade deficit hit U.S.\$89.2 billion in 2011, with a year-on-year increase of U.S.\$32.8 billion.

Despite weaker external demand conditions amid intensifying downside risks to the global economy due to heightened concerns over sovereign debt sustainability in the Eurozone as well as the perception that the recovery in the U.S. economy would be slower than expected, exports remained relatively stable throughout the year. Exports

were mainly driven by base metals, motor vehicles, food products and textiles throughout 2011. All subcategories of imports, particularly base metals, chemicals and chemical products, machinery-equipment and road vehicles, increased amid brisk domestic demand. Having improved in favor of the Turkish economy amid the decline in international energy prices during the global crisis, terms of trade started to deteriorate particularly by the second half of 2009; worsening further in 2011 on the heels of the mild recovery in the post-crisis period, causing energy prices, and in particular, crude oil prices to soar. However, even when excluding energy prices, terms of trade have followed a downward course since the second half of 2009.

The monetary policy implemented by the Central Bank at the end of 2010 to balance domestic and external demand, weakened domestic demand factors, and the increase in net external demand were the main factors underlying the decline in the current account deficit throughout 2012. Measures were taken to decrease credit growth to a sustainable level, which led to a slowdown in imports. Meanwhile, the contraction in private consumption caused exporting sectors to concentrate on foreign markets, which catalyzed the reduction in the current account deficit. The Turkish lira, which maintained its competitiveness, also played a significant role in reducing the current account deficit by contributing to the increase in exports of goods and services. As a consequence, the Current Account deficit was reduced by U.S.\$26.5 billion to U.S.\$48.5 billion in 2012.

The moderate and steady upward trend in exports that started in the wake of the financial crisis continued throughout 2012. The financial crisis in the EU countries that deepened at the end-2011 impeded Turkey's exports to the EU. However, the adverse effects of the conditions in the EU were mitigated by diversifying to newer export regions and sectors during this period. Another significant development with respect to exports was the increase in gold exports that started primarily in the second quarter of 2012.

The downward trend in imports that began in the final quarter of 2011 was reversed and there was a limited increase in imports during the last quarter of 2012. Overall, the decline in domestic demand had a restrictive effect on the total demand for imports, and both total imports and imports, excluding the energy sector, decreased in year-on-year terms by 1.8% and 5.8%, respectively.

Tourism and transportation items continued to be the main drivers of goods and services in 2012. Tourism revenues increased in the final quarter of 2012 compared to the same period of the previous year. This was mainly driven by the increase in the number of visitors from outside of the EU, primarily from Asian countries.

Despite the weak global growth, exports managed to maintain a steady pattern in 2013 and stayed at U.S.\$162.1 billion level. On the other hand, a significant growth of 6.3% was realized in imports mainly because of historically high gold imports as well as robust domestic demand. Consequently, the balance-of-payments-defined trade deficit rose to U.S.\$80 billion in 2013 (U.S.\$11.8 billion of which was due to gold imports).

Tourism and transportation items continued to be the main drivers of services in 2013 as in 2012. Tourism revenues increased throughout the year and reached a historical high of U.S.\$28 billion in 2013. This was mainly driven by the increase in the number of visitors from outside of the EU, primarily from Russia, Georgia and Asian countries.

As a result of the above factors, the Current Account deficit rose to U.S.\$64.7 billion (7.9% of GDP) at the end of 2013.

In 2014, the Current Account deficit of Turkey narrowed by U.S.\$18.2 billion to U.S.\$46.5 billion (5.8% of GDP). The main factor behind this fall was the collapse of gold imports. After a spike in 2013, the plunge in net gold imports contributed U.S.\$7.9 billion to the shrinkage of the Current Account deficit.

Although geopolitical issues affecting Turkey's important trade partners, such as Iraq, Russia and Ukraine, limited Turkey's export performance, with the exception of gold exports, exports increased by 4.0% (U.S.\$5.9 billion). In addition to the below-the-potential growth, the sharp fall in oil prices over the second half of the year helped in containing energy imports and total imports dropped by 0.6 % (U.S.\$1.5 billion). In real terms, excluding gold and oil, these figures correspond to 5.5% increase in exports and 1.2% increase in imports. Tourism revenues and shuttle trade, important revenue items in Turkey's Current Account balance, performed relatively well during 2014 and expanded by 5.8% and 15.6 %, respectively.

FOREIGN DIRECT INVESTMENTS

Pro-business foreign direct investment (“FDI”) policies were introduced as part of the modernization of the Turkish economy. FDI legislation, which has been in force since June 17, 2003, provides a secure environment for foreign investors by providing support through several bilateral and multilateral agreements and organizations, all of which helps to ensure equal treatment of domestic and foreign investors, such as granting foreign entrepreneurs the same rights as local entrepreneurs and guaranteeing the transfer of profits, fees and royalties and the repatriation of capital.

The main principles of the FDI Regime are:

- No Pre-entry Screening Requirement
- No Minimum Capital Requirement
- Equal Treatment of Domestic and Foreign Investors
- Guarantee to Transfer of Proceeds
- Key Expatriate Personnel Employment
- Protection Against Expropriation
- International Dispute Settlement

Turkey has been a member of several international organizations and party to bilateral and multilateral agreements, which provide a more secure investment environment for foreign investors, such as:

- The Organization for Economic Co-operation and Development (“OECD”), World Trade Organization (“WTO”), International Monetary Fund (IMF), World Bank and various organizations of the World Bank, including Multinational International Guaranty Agency (“MIGA”).
- Agreements to protect and promote investment which have been signed with 94 countries, 76 of which are currently in force.
- Agreements to avoid double taxation are currently in effect with 76 countries.
- Active participation in meetings and activities of the OECD Investment Committee and its working parties, and party to the convention on the International Center for Settlement of Disputes.
- Investment-related agreements on WTO platforms such as TRIMs (Trade Related Investment Measures) and TRIPs (Trade Related Intellectual Property Rights).
- Active participant in the WTO working group conducting analytical studies on the relationship between trade and investment.

Net FDI inflows into Turkey amounted to U.S.\$12.5 billion in 2014. The following table sets forth foreign direct investment inflows for the years indicated:

Table 28
Foreign Direct Investment

	Equity Capital			Other Capital (Intra- Company Loans)	Real Estate	Total (Net Incurrence of Liabilities)
	Inflows	Liquidation Outflows	Net	Net	Net	(Net)
	<i>(in millions of U.S. dollars)</i>					
2010	6,256	-35	6,221	384	2,494	9,099
2011	16,137	-1,991	14,146	17	2,013	16,176
2012	10,759	-633	10,126	520	2,636	13,282
2013	9,866	-568	9,298	110	3,049	12,457
2014	8,708	-254	8,454	-236	4,321	12,539

Source: CBRT

Investments in the services sector accounted for 45.7% of total FDI for 2014, while manufacturing accounted for 33.2% of such total. The following table sets forth FDI inflows (Equity Capital) by sector:

Table 29

Foreign Direct Investment (Equity Capital) by Sector

(in millions of U.S. Dollars)

Sector	2010	2011	2012	2013	2014
Agriculture, Forestry and Fishing	81	32	43	47	61
Mining and Quarrying	136	146	213	242	449
Manufacturing	924	3,597	4,343	2,207	2,894
Electricity, Gas, Steam and Air-conditioning Supply	1,824	4,293	924	2,334	1,322
Water Supply; Sewerage, Waste Management and Remediation	3	2	0	36	3
Construction	310	301	1,427	178	232
Wholesale and Retail Trade	435	709	221	377	1,165
Transportation and Storage	183	222	130	300	142
Accommodation and Food Service Activities	113	122	16	59	23
Information and Communication Services	36	36	133	110	211
Financial and Insurance Activities	1,621	5,883	2,084	3,415	1,535
Real Estate Activities	241	300	173	128	226

Sector	2010	2011	2012	2013	2014
Professional, Scientific and Technical Activities	94	103	78	87	94
Administrative and Support Service Activities	17	55	234	175	93
Public Administration and Defense Compulsory Social Security	0	0	0	0	0
Education	17	68	60	2	0
Human Health and Social Work Activities	112	232	546	106	200
Arts, Entertainment and Recreation	62	13	81	5	2
Other Service Activities	47	23	53	58	56
Activities of Extra-Territorial Organizations and Bodies	0	0	0	0	0
TOTAL	6,256	16,137	10,759	9,866	8,708

Source: CBRT

Historically, firms from the EU member states have had the largest share of FDI in the country. Beginning in 2009, EU member states were significantly affected by the global financial crisis and as a result, fiscal problems arose, and continue to arise, in the region. As a result, many firms in the EU revised their investment strategies and decreased direct investments abroad, including investments in Turkey. Accordingly, Turkey experienced a significant decrease in foreign direct investment in 2009. Globally, net international direct investment decreased 6% in 2013 and increased slightly, by 1%, in 2014. Meanwhile, FDI inflows to Turkey decreased by 9% in 2014, compared to 2013. The share of FDI inflows from European Union countries increased slightly, from 53% to 63%, while the share of FDI inflows from Asian countries decreased from 29% to 20% in 2014. The following table sets forth foreign direct investment inflows (Equity Capital) by country:

Table 30

Foreign Direct Investment (Equity Capital) by Country

(in millions of U.S. Dollars)

	2010	2011	2012	2013	2014
EUROPE	4,939	12,588	7,925	6,400	6,571
Austria	1,584	2,418	1,519	647	50
France	623	999	86	217	280
Germany	597	665	491	1,968	693

	2010	2011	2012	2013	2014
Greece	436	111	58	68	101
Italy	25	111	154	146	490
Luxembourg	311	562	1,186	278	555
Netherlands	486	1,425	1,381	918	2,017
Spain	205	2,251	193	506	76
United Kingdom	245	906	2,044	300	1,049
Other EU Countries	427	3,140	813	1,352	1,260
EFTA Countries	197	323	592	234	324
OTHER EUROPEAN COUNTRIES	5	770	30	894	730
AFRICA	0	0	0	221	42
AMERICA	384	1,485	491	343	325
NORTH AMERICA	378	1,423	471	342	325
USA	323	1,403	439	326	325
Canada	55	20	32	16	0
CENTRAL AMERICA	0	57	16	1	0
SOUTH AMERICA	6	5	4	0	0
ASIA	928	2,055	2,337	2,899	1,770
NEAR AND MIDDLE EAST COUNTRIES	473	1,558	1,593	2,286	1,231
OTHER ASIAN COUNTRIES	455	497	744	613	539
AUSTRALIA	5	9	6	3	0
UNCLASSIFIED	0	0	0	0	0
TOTAL WORLD	6,256	16,137	10,759	9,866	8,708

Source: CBRT

Slowdown in global growth as well as the continued geopolitical tensions are posing risks to global investment sentiment. The West Asia region, which includes Turkey, is one of the most affected regions. Therefore, the gradual decrease in equity inflows between 2011 and 2014 is mostly attributed to global economic health. The election cycle of 2014-2015 in Turkey was another factor that had a negative impact on investment sentiment. However, foreign direct investment inflows remain resilient and began to recover in 2015 and are estimated to surge by around 20% by the end of 2016.

International investment has gained significance due to advances in technology and financial liberalization of world market. Overseas investment provides opportunities for Turkish companies. Turkish companies have extended their overseas operations in recent years in order to benefit from these advantages, such as minimizing the risks could be encountered in a single or limited market, reducing the cost of production (labor force and raw material), overcoming the tariff and non-tariff barriers, utilizing the logistical advantages as well as investment and tax incentives of the host country. This process includes not only greenfield investments but also mergers and acquisitions.

Table 31

Turkish Residents' Direct Investments by Country

(in millions of U.S. Dollars)

	2010	2011	2012	2013	2014
Europe	12,894	14,229	17,300	19,602	20,653
Africa	530	504	412	589	581
America	1,942	2,756	2,271	2,480	2,845
Asia	5,355	6,355	7,286	7,024	9,564
Oceania and Polar Region	40	53	244	223	295
Total	20,761	23,897	27,513	29,918	33,938
YoY Change	4.20%	15.11%	15.13%	8.74%	13.44%

Source: CBRT

FUTURE DIRECTIONS

Strengthening the private sector's role in the Turkish economy is an integral part of Turkey's overall macroeconomic program. Within this framework, Turkey has put efforts for improving the investment climate among the top agenda items and initiated a comprehensive reform program in 2001 in order to streamline all investment-related procedures (the "Reform Program").

The purpose of the Reform Program is to increase domestic and foreign investments by improving the investment environment. Thus, it is intended to prevent administrative obstacles to investing, reduce or eliminate unnecessary and repetitive bureaucratic transactions and complete investment rapidly. The Reform Program is an on-going improvement initiative.

With a view to provide an efficient institutional structure to coordinate the Reform Program, the Coordination Council for the Improvement of the Investment Environment ("YOIKK") was established in 2001. The mandate of the YOIKK is to make specific recommendations to the Council of Ministers to remove obstacles to the improvement of the investment climate.

The YOIKK structure consists of 10 technical committees, each of which deals with different aspects of FDI and is chaired by high level officials of related institutions:

1. Company Transactions and Corporate Governance
2. Employment
3. Input Supply Strategy (GITES) and Sectoral Licenses
4. Investment Location, Environment and Construction Permits
5. Taxes and Incentives
6. Foreign Trade and Customs
7. Intellectual Property Rights and Research & Development
8. Legislation on Investment Climate and Legislative Procedures
9. Getting Credit
10. Infrastructure

Productive collaboration between the public and the private sector is the key factor in this process. To ensure that policy reforms truly reflect and address private sector concerns, direct involvement of companies and investors in this process is critical. Thus, each technical committee consists of representatives from both the private sector and government agencies.

To increase efficiency of the YOIKK, a Steering Committee was established in May 2005, comprised of high level executives of ten Ministries and governmental agencies, and the four leading business associations which have seats on the YOIKK and Investment Advisory Council for Turkey (IAC) platforms. The Undersecretary of Ministry of Economy chairs the Steering Committee. In case of necessity, the Chairman is able to invite other representatives from institutions to committee meetings or to advise the committee.

On February 5, 2007, for the first time in its history, the YOIKK Technical Committees prepared action plans which provided a schedule for all representative institutions from the public and private sectors to finalize works of each Technical Committee. Implementation of the action plans provides a performance measurement for each Technical Committee's work to improve the investment environment. These action plans were reviewed in line with the changing perspectives and necessities of the business environment and have been announced to the public on a yearly basis since 2007.

Some of the developments, resulting from the work of the YOIKK Technical Committees since 2010, are as follows:

- In order to increase license security in the mining sector, "Law Regarding Amendment of Mining Law and Other Laws" was published in the Official Gazette No. 29271 on February 18, 2015.
- In order to enable insurance claims as an assurance for the credibility of enterprises and SME's, "Regulation Regarding Amendment of Regulation on Identifying the Features of Loans and Other Receivables and Procedures and Principles about Provisions" was published in the Official Gazette No. 29267 on February 14, 2015.
- In order to establish Istanbul Arbitration Center, "Istanbul Arbitration Center Law" was published in the Official Gazette No. 29190 on November 29, 2014.

- “Regulation on Environmental Impact Assessment” was published in the Official Gazette No. 28784 on October 3, 2013.
- In order to form a legal structure to harmonize postal services with the international standards, “Postal Services Law” was published in the Official Gazette No. 28655 on May 23, 2013.
- To ensure freight and passenger transportation by private companies, “Law Regarding Liberalizing Rail Transportation” was published in the Official Gazette No. 28634 on May 1, 2013.
- In order to conduct a legislation study to improve the Individual Participation Capital system, a regulation was published in the Official Gazette No. 28560 on February 15, 2013.
- In order to overcome the problems of finding land for investment and to re-evaluate natural protected zones for prospective investment locations, natural protected zones were reviewed within the parameters of the “Detection, Registration and Approval of Protected Areas Regulation,” which entered into force following its publication in the Official Gazette No. 28358 on July 19, 2012.
- To increase the effectiveness of the arbitration mechanism “Law No. 6325 on Arbitration in Legal Disputes” was published in the Official Gazette No. 28331 on June 22, 2012.
- To encourage a more rapid transformation of the telecommunication infrastructure to fiber, “Regulation Regarding the Fixed and Mobile Telecommunication Infrastructure” was published in the Official Gazette No. 28510 on December 27, 2012.
- An amendment of the “Regulation on the Control of Packaging Wastes,” which was prepared with the aim of restructuring the obligations of firms to recycle, entered into force following its publication in the Official Gazette No. 28035 on August 14, 2011.
- In order to increase the predictability of the tax practices, the Tax Audit Board was established and the units on tax auditing were united to provide for greater uniformity. In addition, the “Regulation on the Procedures and Principles in Tax Audits” and the “Regulation on the Tax Audit Board” were published in the Official Gazette of October 31, 2011 and entered into force as of same day.
- The regulation amendment on paperless procedures and decreasing the number of documents to be added into the declarations, entered into force on January 1, 2012, following its publication in the Official Gazette No. 28156 on December 28, 2011.
- With the aims of granting the General Directorates a determining role in value-judgment, referring the second phase of the judgment to the General Directorate of Risk Management and Control and increasing the total invoice amounts in value-judgments, the “Circular No. 2011-49 on Export Value-Judgment” was published on December 20, 2011.
- In order to minimize the negative effects of waste materials on nature and to form appropriate land filling facilities by considering the type of waste, as well as to regulate some circumstances related to parameters and limit values, “Land Filling Regulation” was enacted on April 1, 2010 and published in the Official Gazette No. 27533.
- The “Regulation on KOSGEB Support Programs” was published in the Official Gazette on June 15, 2010 in order to provide easier access to KOSGEB Support Programs by micro and small firms “SMEs Information System,” which will provide online application; efforts to form the KOSGEB call center are underway.
- The “Law on Amending the Income Law and Some Other Laws” was published in the Official Gazette on August 1, 2010, aiming to support contractual formation, and discouraging an informal contractual environment in the agricultural sector, as well as in the trade and the industrial sector, by providing an exemption from stamp duty for agreements signed within the context of the “Regulation on the Fundamentals and Principles of Contractual Production.”
- In the context of “Work Permits Automation Project,” work permit applications can only be made electronically since August 2, 2010.

- “Circular on Planning and Implementation process in coastal construction plant” was published in the Official Gazette on September 4, 2010, in order to reduce and simplify the duration of the investment location process in coastal constructions.
- Amendment of the additional regulation related to the Shelter Commission was published in the Official Gazette on September 29, 2010. The Shelter Commission was abolished and the construction permit process was improved.
- The “Law on Veterinary Services, Phytosanitary, Food and Feed” was enacted on June 13, 2010 and published in the Official Gazette No. Official Gazette 27610, with the aim to provide licenses to food production companies, which require maintaining certain technical and hygienic standards; and to authorize the Ministry of Agriculture and Rural Affairs (Ministry of Food, Agriculture and Livestock) to act as the sole authority for an effective audit and control system.

Turkey designed a program for sharing its experience on reforming the investment environment in order to create a synergy between Turkey and the requesting country’s current conditions, necessities and preferences. A series of seven workshops designed and crafted according to the needs of the country have been carried out since 2008:

- May 22-23, 2014, Experience Sharing Program for Tunisia
- September 23-27, 2013, Expert Training Program for the Experts of the IDB Members “Turkey’s Experience Sharing Program on Investment Climate Reforms
- May 30, 2013, Experience Sharing Program on Investment Climate Reform for Cameroon
- April 16, 2013, Experience Sharing Program on Investment Climate Reform for Egypt
- December 17-20, 2012, Expert Training Program for the Experts of the IDB Members “Turkey’s Experience Sharing Program on Investment Climate Reforms”
- October 2-4, 2012, Experience Sharing Program on Investment Climate Reform for Tunisia
- September 24-25, 2012, “Turkey-Palestine Experience Sharing Program”
- October 10-14, 2011, Expert Training Program for the Experts of the IDB Members “Turkey’s Experience Sharing Program on Investment Climate Reforms”
- May 25-26, 2011, Turkey-Training Program on Improving Investment Climate in Economic Cooperation Organization (“ECO”) Member Countries and Turkish Experience
- May 2-6, 2011, Lefkoşa-Experience Sharing Program with Turkish Republic of Northern Cyprus-Designing Structures
- January 27-28, 2011, Girne - Experience Sharing Program with Turkish Republic of Northern Cyprus -Raising Awareness and Building Capacity
- May 25-27, 2010, Assessment Study on Investment Conditions in Yemen on behalf of Friends of Yemen Group
- November 6-7, 2008, Turkey - Experience Sharing Program with Kyrgyz Delegation
- November 5, 2008, Turkey - Experience Sharing Program with Iraq Delegation

The investment climate indices published by international organizations or institutions are of vital importance in terms of providing comparative information on countries to assist in the improvement of the investment environment. The indices, published periodically, focus on issues such as legal framework, infrastructure, and institutional capacity which factor into investors’ decisions on mobilizing their investments, and thus contribute to the prioritization of the country’s reform agenda.

According to the World Bank 2015 Doing Business Report, which comparatively evaluates 189 countries under 10 different topics, such as, starting a business, resolving insolvency and trading across borders, Turkey ranked 55 among 189 countries.

While achieving positive results in improving the investment environment for businesses by means of national platforms like YOIKK, another structure with an international perspective, Investment Advisory Council (“IAC”) for Turkey, was established in 2004 with a view to raise the competitive position of Turkey in the world economy as an investment location.

At the end of the inaugural meeting the Council members decided to convene once a year and highlighted a number of priority issues which they believed to be hindering Turkey’s full potential and which they view would be beneficial to concentrate on. These IAC meetings brought together top executives of leading multinational companies, international organizations, such as IMF, World Bank and European Investment Bank and heads of Turkish private sector associations in Istanbul and were chaired by the Prime Minister.

The IAC structure, and the cooperative dialogue it encourages with the private sector, has proven to be not only fundamental for creating a better investment climate, but also fully supportive of the government’s philosophy that continuous efforts to improve the investment environment will remain at the forefront of the country’s development priorities. The YOIKK technical committees serve as working groups to which the IAC recommendations shall be remitted for follow up and action.

The Council has had eight meetings to date and the most recent meeting of the IAC was held on October 31, 2013 in Istanbul. The members of the IAC unanimously reaffirmed for the eighth year their commitment to the Turkish economy and reiterate their substantial investment and growth plans for the future.

The Council of Ministers is authorized to apply reduced corporate income rates, not exceeding a 75% reduction, for taxpayers operating in the fields of textile, confection and ready-made clothing, leather and leather products, who transfer their manufacturing facilities to the provinces determined by the Council of Ministers until December 31, 2010 and recruit at least 50 employees, over their earnings which are derived from the mentioned provinces for five years following the transfer date.

Tax incentives for activities in the free trade zones (“FTZ”) have been restructured to encourage international trade. Movement of goods between FTZs and third countries is exempt from customs duties. Corporate and personal income tax exemptions have been abolished since 2004 for new companies which are not engaged in production. Income from the sales of products manufactured in FTZs is exempt from personal and corporate income taxes until the year of full membership in the EU. Salaries paid by those FTZ manufacturers which export at least 85% (FOB price) of their products are exempt from personal income tax.

Investment incentives which are designed and implemented by the Ministry of Economy are based on the provisions of Board of Ministers decrees and implementing communiqués. Turkey’s current Investment Incentive Program became effective by the “Council of Minister’s Decree No. 2012/3305 dated June 15, 2012. The Decree aims to steer savings into high value added investments, to boost production and employment, to encourage large scale and strategic investments with high R&D content for increased international competitiveness, to increase foreign direct investments, to reduce regional development disparities and to promote investments clustering and environment protection for the production and export-oriented growth strategy in line with the projected targets in Development Plans and Annual Programs as well as international agreements.

Investments are supported through four different incentive schemes designed within the scope of the program. Contributions provided to investors through incentive measures depend on the characteristics of the investment and applicable schemes.

The incentive schemes are as follows:

1. Regional investment incentive scheme;
2. Large scale investment incentive scheme;
3. Strategic investment incentive scheme; and
4. General investment incentive scheme.

CAPITAL ACCOUNT

The liquidity created by expansionary monetary policies in advanced economies stimulated capital inflows to emerging economies in 2010. As a result, Turkey experienced a net portfolio inflow of U.S.\$16.1 billion in 2010. Meanwhile, direct investment increased by 8.3% to U.S.\$7.6 billion. Moreover, the private sector became a net creditor, and at the same time, banking sector borrowing, especially short-term borrowing, increased. Accordingly, official reserves increased by U.S.\$12.8 billion in 2010, whereas banks' foreign exchange reserves fell by U.S.\$13.6 billion, and net errors and omissions posted a surplus of U.S.\$0.2 billion.

In 2011, net capital inflow was U.S.\$55.6 billion, with the exclusion of reserve changes (Central Bank, banks and other sectors) and IMF loans. Unlike 2010, the non-bank private sector was a net borrower in 2011. Long and short-term borrowings of banks and other sectors, the FDI as well as portfolio investment, particularly GDBS purchases, were the main drivers of net capital inflows. Due to the policy measures adopted in this period, the share of portfolio investment and short-term capital inflows dropped, while FDI and long-term capital inflows gained a higher share in external financing. Accordingly, official reserves declined by U.S.\$1.8 billion in 2011, while FX assets of banks and the private sector went down by U.S.\$15.1 billion, with net errors and omissions posting a surplus of U.S.\$9.1 billion.

The share of direct investment and other investment declined in 2012, while the share of portfolio inflows increased. Capital inflows increased due to the decrease in the current account deficit resulting in a significant increase in official reserves and banks reserves in 2012.

The lingering financial problems in the EU resulted in a decrease in direct investments from that region compared to the previous year. Meanwhile, Turkish direct investments abroad reached historically high levels, which reflects the relatively positive outlook of the country. Due to an increase in risk appetite globally, increasing amounts of liquidity have been directed towards emerging markets. The impact of this trend on Turkey's balance of payments was marked by an increase in portfolio inflows that started predominantly in the second half of 2012, and Turkey's share of the global portfolio flows towards emerging economies reached historic highs in the final quarter of 2012.

Turkey's share of short-term flows in capital inflows declined throughout 2013 compared to the previous year. On the other hand, long-term funding of current account deficit surged by almost 25% and exceeded the short-term inflows at this period. Neither the banking sector nor other sectors experienced any supply side constraints in borrowing from abroad in 2013 and short-term credit borrowing created an important source of financing for banks and the other sectors. For long-term financing, banks resorted both to bond offerings and foreign credits. They used U.S.\$17.8 billion worth of long-term credit together with U.S.\$8 billion of bond issuance. For other sectors, a significant bond issuance appeared in 2012 and got almost tripled in 2013 and reached U.S.\$3.5 billion. In fact, the banking sector's debt roll-over ratio, including the bond offerings of the banks, well exceeded the 100 level in 2013.

In 2014, the net capital inflow fell by 35.8% to U.S.\$42.7 billion compared to the previous year. In 2014, the net foreign direct investment was U.S.\$5.5 billion. This indicates a 40.2% decline on an annual basis. The direct investment in Turkey by foreigners was only 2.1% lower than the previous year, while the investment abroad by the residents almost doubled from U.S.\$3.6 billion in 2013 to U.S.\$7.1 billion. The net portfolio investment amounted to U.S.\$20.1 billion with a 15% drop annually. The government, banks, and other sectors issued bonds worth of U.S.\$4.2 billion, U.S.\$10.2 billion, and U.S.\$3.3 billion, respectively, net of repayments. The remaining U.S.\$17.1 billion were in the form of credits, commercial credits, bank deposits, and other investment (U.S.\$15.0 billion, U.S.\$0.8 billion, and U.S.\$0.9 billion, and U.S.\$0.4 billion, respectively). Net long-run foreign credit was around U.S.\$12.7 billion. In this year, the official foreign exchange reserves fell down by U.S.\$0.5 billion, while the reserves of the banking sector and the others increased by U.S.\$0.3 billion.

INTERNATIONAL RESERVES

Over the period 2010-2013, the Central Bank substantially increased its international reserves from previous years. Gold accumulation together with U.S.\$21.5 billion increase in gross reserves of the Central Bank drove total net reserves to U.S.\$137.5 billion in 2012. Net international reserves reached U.S.\$148 billion in 2013 with an accumulation of U.S.\$10.4 billion, which originated mainly from gross reserves of the Central Bank. In 2014, net international reserves dropped by about U.S.\$6 billion owing to the fall in the gross reserves of the Central Bank. The following table presents the level of international reserves at the end of the years indicated:

International Reserves (in millions of U.S. Dollars)

Table 32

	CBT Gross Reserves (A)	Overdraft (B)	Gold (C)	CBT Net Reserves (D=A-B+C)	Commercial Banks (E)	Total Net Reserves (F=D+E)
2010	80,721	1	5,264	85,984	24,043	110,027
2011	78,458	1	9,888	88,346	22,164	110,510
2012	99,923	0.4	19,240	119,163	18,324	137,486
2013	110,928	0.4	20,077	131,004	16,858	147,862
2014	106,902	0.4	20,401	127,302	14,539	141,841

Source: CBT

FINANCIAL SYSTEM

THE CENTRAL BANK

The Law on the Central Bank of Turkey (No. 1715) was enacted on June 11, 1930. The Central Bank (also referred to as the “CBRT”) was established in October 1931 and opened officially on January 1, 1932. On January 14, 1970, a new Central Bank Law No. 1211 was enacted. The goal of the new Central Bank Law was to redefine the authorities and responsibilities of the Central Bank and to enrich the monetary policy tools of the Central Bank so as to enable the Central Bank to play a more active and efficient role in the economy.

The Central Bank has the exclusive right to issue bank notes in Turkey. As the sole regulator of the volume and circulation of the national currency, the Central Bank controls the monetary supply through open market operations and by setting reserve and liquidity requirements. The Central Bank’s open market operations desk maintains a portfolio of Government securities to effect repurchases, reverse repurchases, direct sales and direct purchases. On a day-to-day basis, the Central Bank also regulates liquidity through the interbank market.

The Central Bank manages the official gold and foreign exchange reserves. The Central Bank holds foreign exchange reserves in support of a range of objectives, which include assisting the Turkish Government in meeting its foreign exchange denominated domestic and foreign debt obligations, maintaining foreign exchange liquidity against external shocks, supporting the monetary and exchange rate policies and providing confidence to the markets. The Central Bank’s foreign currency reserves consist primarily of U.S. dollar and Euro denominated deposits and marketable securities issued by foreign governments, supranationals and institutions which have an explicit government guaranty. The Central Bank is also required to determine and protect the value of the national currency compared against gold and foreign currencies within guidelines set by the Government. Besides the foreign exchange market, the Central Bank oversees the domestic markets for Turkish Lira deposits, foreign currency notes and foreign currency deposits. The Central Bank also engages in lending and the granting of credits through its discount window from time to time, though it has not done so to any material extent from January 1996 to date.

The Central Bank performs the traditional functions of a central bank, including the issuance of banknotes, establishing monetary and exchange rate policy in accordance with the needs of the economy so as to maintain price stability by taking into consideration development plans and annual programs, and advising the Government regarding financial matters.

In the aftermath of the February 2001 economic crisis, a series of reforms were put into effect in 2001 and 2002, including an amendment to the Central Bank Law that provided instrument independence, accountability and transparency, declared price stability as the sole and overriding objective of monetary policy and established a Monetary Policy Committee (the “MPC”) with the responsibility of setting the inflation target together with the Government. Further, in 2002, these reforms also included the establishment of the Turkish Lira Interbank Offer Rate (“TRLIBOR”), which plays an important role in the pricing of credit and other financial instruments, including forward foreign exchange rates, and the commencement of a primary dealership system supported by the Central Bank, which provides the primary dealer banks with Turkish Lira liquidity.

The Central Bank continued efforts to improve the stability of financial markets by implementing policies regarding price stability. Within this framework, the Central Bank introduced the lending operations market for Government Domestic Borrowing Securities (GDBS) at the beginning of 2003 as a step to reinforce the primary dealer system. Hence, banks that want to lend GDBS had the opportunity to obtain additional return with low risk, while borrower primary dealer banks reduced their quotation liabilities in the secondary market.

On January 31, 2004, the Law on the Currency Unit of Turkey (Law No. 5083) was published in the Official Gazette (No. 25363). In accordance with Law No. 5083, a new currency, known as New Turkish Lira or YTL, was introduced on January 1, 2005. The conversion rate of the old 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.

Under the inflation targeting framework, the end-year inflation targets for the next three years are set with the Government during the preparation of the Medium Term Program and announced through the publication of “Monetary and Exchange Rate Policy” documents at the end of each year. As part of the accountability mechanism, a symmetric uncertainty band for the inflation target is also announced. If any developments prevailed that would threaten the possibility of achieving the targets in the medium term, the Central Bank would be required to explain the reasons for the deviation from the target, to take necessary measures to ensure that inflation would revert back to the target and to inform the public of the expected duration in which inflation would converge to the target. The inflation reports have become a significant tool of the accountability mechanism. If end of quarter inflation figures breached the uncertainty band, the Central Bank would disclose the reasons for the deviation in the quarterly Inflation Report, together with the measures already taken as well as those to be taken to attain convergence to the target. The Central Bank will submit a public letter to the government if inflation falls outside the uncertainty band at the end of the year.

The framework of the monetary and exchange rate policies to be implemented in 2010 was announced through the policy document entitled “Monetary and Exchange Rate Policy for 2010” on December 10, 2009. The general frameworks of the monetary and exchange rate policies have been maintained as the inflation targeting and the floating exchange rate regimes, respectively, in 2010, as in previous years. Similarly, the enforcement of the accountability mechanism has not been amended for 2010. In this framework, the quarterly inflation path consistent with the year-end target for 2010 was announced to be constant throughout the whole year as a $\pm 2\%$ uncertainty band around the end-year target of 6.5%. In other words, the target of 6.5% will be valid for each quarter end throughout the year 2010 for accounting purposes. Furthermore, the inflation target for 2012 was announced as 5% and it was announced that the “uncertainty band” for the next three years would be maintained at $\pm 2\%$, as it has been the case since 2006.

The framework of the monetary and exchange rate policies to be implemented in 2011 was announced through the policy document entitled “Monetary and Exchange Rate Policy for 2011” on December 21, 2010. In line with its primary objective of achieving and maintaining price stability, the Central Bank has been conducting monetary policy within the framework of the inflation-targeting regime. The Central Bank has also been carrying out its duty to take measures to achieve stability in the financial system. Along with inflation targeting, the Central Bank continued to implement the floating exchange rate regime in 2011. The medium-term inflation target was kept at 5%. The target variable was announced to be year-end inflation rates calculated by the annual percentage change of the CPI and inflation targets, and was set jointly with the Government as “point targets” to be met. Accordingly, the inflation “point targets” set for 2011 and 2012 were announced as 5.5% and 5%, respectively. The year end-2013 inflation target was again jointly determined with the Government as 5% during the preparation of the medium term program for the 2011-2013 period. The accountability mechanism was not amended for 2011. The “uncertainty band” was maintained at $\pm 2\%$ for 2011.

The framework of the monetary and exchange rate policies to be implemented in 2012 was announced through the policy document entitled “Monetary and Exchange Rate Policy for 2012” on December 27, 2011. In 2012, while focusing on price stability, the Central Bank continued to support financial stability. To this end, the Central Bank will continue to maintain a flexible framework for monetary policy. In addition to the interest rate corridor, the overnight interest rate has also been adjusting in response to economic and financial developments through an effective liquidity management. The target variable for monetary policy continues to be the year-end inflation rate, which is calculated as the 12-month change of the Consumer Price Index. The medium-term inflation target has been preserved as 5%. As it was for the 2012-2013 period, the inflation target for 2014 has been set as 5%, which was set jointly with the Government. The accountability mechanism has been kept for 2012 as it was before. The uncertainty band has been maintained at 2% in both directions. Along with the inflation targeting, the Central Bank continues to implement the floating exchange rate regime in 2012.

The framework of the monetary and exchange rate policies to be implemented in 2013 was announced in the policy document entitled “Monetary and Exchange Rate Policy for 2013” on December 25, 2012. The Central Bank continues to implement inflation targeting under a floating exchange rate regime in order to pursue its main objective of price stability. The target variable continues to be the year-end inflation rate calculated by the annual percentage change of the Consumer Price Index. The target horizon is maintained as three years consistent with the 3-year Medium-Term Program of the Government. The Central Bank and the Government have jointly set an inflation target of 5% for 2013, 2014 and 2015. The accountability mechanism for this target remains unchanged.

The uncertainty band has been maintained at 2% in both directions. In 2013, while focusing on price stability, the Central Bank continued to support financial stability. To this end the Central Bank continues to maintain a flexible framework for monetary policy. The Central Bank uses multiple policy instruments such as the interest rate corridor and ROM to bolster financial stability without negatively affecting price stability. By allowing Turkish banks to hold a certain portion of their TL required reserves in foreign exchange (FX) and gold, ROM encourages Turkish banks to hold foreign exchange and gold reserves voluntarily. This provides the banks with the flexibility to adjust their foreign exchange reserves held at the Central Bank in response to changes in external financing conditions alleviating the volatility in the exchange rate and credit volumes caused by capital flows.

The framework of the monetary and exchange rate policies to be implemented in 2014 was announced on December 24, 2013, in the policy document entitled “Monetary and Exchange Rate Policy for 2014.” In 2014, the Central Bank continued to implement inflation targeting under a floating exchange rate regime in order to pursue its main objective of price stability. The target variable continued to be the year-end inflation rate calculated by the annual percentage change of the Consumer Price Index. The target horizon of three years was maintained, which is consistent with the 3-year Medium-Term Program of the Government. The Central Bank and the Government jointly set an inflation target of 5% for 2014, 2015 and 2016. The accountability mechanism for this target remained unchanged. The uncertainty band remains at 2% in both directions. The framework of the monetary and exchange rate policies to be implemented in 2015 was announced in the policy document entitled “Monetary and Exchange Rate Policy for 2015” on December 10, 2014. In 2015, the Central Bank continues to implement inflation targeting under a floating exchange rate regime in order to pursue its main objective of price stability. The target variable continues to be the year-end inflation rate calculated by the annual percentage change of the Consumer Price Index. The target horizon of three years remains, which is consistent with the 3-year Medium-Term Program of the Government. The Central Bank and the Government have jointly set an inflation target of 5% for 2015, 2016 and 2017. The accountability mechanism for the target remains unchanged. The uncertainty band remains at 2% in both directions. In 2014, the Central Bank preserved the price stability-oriented monetary stance and continued to support financial stability as a complementary objective. In this context, the CBRT has maintained its policies of containing domestic market volatility led by capital flows, while supporting prudent borrowing.

MONETARY POLICY AND INFLATION

In the aftermath of the global financial crisis, the divergence in growth between advanced and emerging economies caused monetary policies to vary across these economies. Indeed, relatively sluggish economic activity prompted many advanced economies to adopt a second round of quantitative easing to bolster an already expansionary monetary policy. Having recovered at a relatively stronger pace, emerging economies, including Turkey, were able to withdraw the stimulus packages that were adopted during the global financial crisis. The divergence in growth between advanced and emerging economies and the global liquidity fueled by ongoing quantitative easing in advanced economies, combined with the search for higher yields and the relatively higher interest rates in emerging economies, accelerated capital inflows to emerging economies in certain cases.

These global economic developments had a positive impact on the Turkish economy. The economy recovered as the effects of the global financial crisis tapered off in 2010. GDP posted positive year-on-year growth during first quarter of 2010. Furthermore, GDP registered an 8.9% increase in 2010. On the spending side, the fiscal and monetary measures implemented in response to the global financial crises eased uncertainty, which encouraged consumption and investment by increasing consumer confidence and improving credit conditions. During 2010, final domestic demand, particularly private demand, was the main driver of GDP growth, while net exports negatively impacted growth due to weak external demand and the rapid recovery in the demand for imported goods. In 2010, GDP growth helped improve the labor market, and, accordingly, employment continued a strong upward trend starting from the first quarter of 2009 as the adverse effects of the global financial crisis on the labor market tapered off.

With the waning effects of the global financial crisis on financial markets, on April 14, 2010, the Central Bank announced its exit strategy for the withdrawal of the global financial crisis-induced liquidity measures and the normalization of the monetary policy framework. In this context, the liquidity produced by repo auctions was gradually reduced with the normalization in money markets.

As market liquidity conditions unfolded as expected, in May the Central Bank took the first step of the technical rate adjustment process as part of its exit strategy, and started to use the 1-week repo auction rate as the reference rate for monetary policy. In September, pursuant to the second state of the technical rate adjustment, the Central Bank raised the spread between the 1-week repo auction rate and the overnight borrowing rate by 25 basis points.

Certain positive economic developments in Turkey, such as the stronger-than-expected economic recovery, credit rating upgrades, reduced political uncertainty in the post-referendum period and an updated Medium-Term Program that implied further fiscal discipline, exposed Turkey to significant capital inflows, which have already increased. Increased capital inflows raised concerns over financial stability through potentially rapid credit expansion. In addition, both the final domestic demand driven growth of the Turkish economy and the negative contribution of net exports to growth prompted close monitoring of capital inflows due to their potential risks to the current account deficit.

In this context, and pursuant to its primary objective of achieving and maintaining price stability and its obligation to take the necessary steps for achieving financial stability, the Central Bank adopted a policy mix that combined short-term interest rates, its main policy tool, with alternative policy instruments, such as liquidity management and reserve requirements. The policy aimed to enhance the effectiveness of monetary policy and contain macroeconomic risks through a series of new measures adopted in November and December to maintain the flexibility of foreign exchange buying auctions, end interest payments on TL reserve requirements, alter the operational structure of liquidity management and channel capital inflows resulting from global monetary expansion into longer-term investment instruments.

In October, November and December, the Central Bank lowered the overnight borrowing rate from 5.75% to 1.50% and raised the lending rate by 0.25% to 9% as part of this policy. A similar adjustment was made for late liquidity window rates. Moreover, the Central Bank adopted a new policy mix with lower policy rates, a wider interest rate corridor and higher required reserve ratios in order to contain the macro financial risks described above.

In light of credit expansion, the TL required reserve ratio was raised by 0.50% in both September and November to 6%. Furthermore, the Central Bank ended the interest payment on TL reserve requirements in September to ensure that required reserve ratios were more effectively used as a tool to reduce macroeconomic and financial risks in the future. In December, in order to extend the maturity of the banking system's liabilities and to encourage long-term capital inflows, TL required reserve ratios were differentiated by maturity and the required reserve base was expanded to include foreign and domestic repo transactions, which were previously not subject to the reserve requirement.

Meanwhile, in light of falling demand, the Central Bank terminated 3-month repo auctions as of October 15, 2010. Since, as a result of the competition of the technical rate adjustment process pursuant to the Central Bank's exit strategy, the main funding instrument was 1-week repo auctions and since short-term lending and borrowing facilities are overnight, starting from October 15, 2010, the Central Bank decided to make the repo facility only available at overnight maturity in order to harmonize maturities of similar liquidity management tools.

In addition to raising the TL required reserve ratio, the Central Bank ended interest payments on TL reserve requirements in September. In October 2010, increases in the TL and foreign exchange required reserve ratios helped drain TL 2.1 billion and U.S.\$1.5 billion from the economy. The increase in the TL required reserve ratio in November reduced the market liquidity by TL 2.1 billion. However, the Central Bank bought a total of U.S.\$5.85 billion from the market in the fourth quarter of 2010, generating a liquidity of TL 7.97 billion. In order to maintain a diversity of policy tools and operational flexibility, the Central Bank continued to conduct repurchase auctions for Turkey domestic bonds, which resumed on December 23, 2009, and provided a liquidity injection of TL1.01 billion into the market. Both repurchase auctions for Turkey domestic bonds and foreign exchange buying auctions boosted liquidity in the fourth quarter of 2010. The Treasury's average account balance at the Central Bank decreased quarter-on-quarter, easing the liquidity shortage. Nevertheless, the marked increase in the monetary base caused the net liquidity shortage in the banking system to grow quarter-on-quarter.

CPI inflation was down to 6.4% year-on-year at the end of 2010. Inflation remained volatile over 2010 due to changes in unprocessed food prices (especially fresh fruit-vegetables and meat) and base effects from the 2009 tax incentives. In the fourth quarter of 2010, CPI inflation declined, as expected, amid falling unprocessed food prices and largely met the 2010 target of 6.5%.

After reverting to a recovery path since 2010, the global economy continued to recover further in 2011, albeit at a slower pace. Meanwhile, the evident diversification in growth performances between the advanced and emerging economies in 2010 continued into 2011, thereby influencing monetary policy implementations in the respective countries. In the post-crisis period, advanced economies opted for additional monetary expansion and focused particularly on solving crisis-originated balance sheet problems. On the other hand, emerging economies, which also include Turkey, concentrated mainly on managing macro-financial risks due to accelerated capital flows driven by the higher search for yield as well as excess global liquidity on the back of the additional monetary expansion conducted by major central banks. Thus, seeking a more comprehensive policy, many central banks adopted a new scheme that also takes financial stability into consideration in addition to price stability. To alleviate macro financial risks stemming from the divergence between internal and external demand and fast credit growth, the weighted average of the Turkish lira required reserve ratios were raised significantly in January, March and April 2011. Moreover, FX required reserve ratios were differentiated by maturity, with short-term FX required reserve ratios being increased slightly in April 2011.

In the second quarter of 2011, core inflation indicators increased gradually as expected due to the lagged effects of the cumulative increases in import prices. The increase in import prices was considered to be the result of a relative price change in tradable goods rather than deterioration in the general pricing behavior, hence secondary effects have yet to be observed. Accordingly, in view of the slowdown in economic activity and uncertainties in the global economy, the policy rate and Turkish lira required reserve ratios were kept unchanged in the May-July period.

Envisioning that external demand might be adversely affected, while domestic demand, and hence, economic activity would slow down further amid heightened sovereign debt problems in some European countries, the Central Bank held an interim meeting on August 4th and lowered the policy rate by 50 basis points. In addition, in order to effectively enforce countercyclical liquidity measures in the event of a further deterioration in risk appetite, the interest rate corridor was narrowed by raising the overnight borrowing rate and a technical arrangement was introduced to the weekly auction method. Moreover, regulations on Turkish lira required reserves were amended in order to meet the liquidity needs of the banking system.

The excessive depreciation of the Turkish Lira since August 2011 amid the worsening global risk appetite, in addition to administered price adjustments in the last quarter of 2011, caused a fast rise in the short-term inflation. With a view to containing the adverse effects on the medium term inflation expectations and outlook, the Central Bank widened the interest rate corridor upwards delivering a sizeable borrowing rate hike in October. Meanwhile in order to prevent an unfavorable tightness in liquidity conditions due to the overnight rate hike, Turkish lira required reserve ratios were lowered in October. Moreover, in order to enhance the liquidity management of banks and help them foresee total funding costs, technical arrangements were rendered in repo auctions in November and traditional one-month-repo auctions were initiated starting from December 27, 2011 on every Friday.

Macro prudential policies in 2011 proved effective, by giving way to a balancing of the economy. However, the depreciation of the Turkish lira amid worsening global risk appetite as of August 2011 as well as administered price adjustments in the last quarter caused inflation to remarkably deviate from the target. As a result, year-end CPI inflation went far above the year-end target of 5.5%, by hitting 10.45% at end 2011.

Global risk appetite, which had worsened as of August 2011 due to concerns over the financial condition of the EU, gradually improved in the first quarter of 2012. At the same time, the rebalancing process in the economy became more pronounced and the current account deficit improved. Having achieved its desired outcome with respect to alleviating macro financial risks, starting in October 2011, the Central Bank's monetary policy has focused on maintaining price stability. With the goal of containing the upside risks related to pricing behavior due to the increase in inflation in the last quarter of 2011, the Central Bank maintained a tight monetary policy position in the early months of 2012. In order to prevent second-round effects on inflation, the Central Bank implemented additional monetary tightening for eight days in December 2011. Accordingly, funding at the policy rate was suspended temporarily which resulted in the overnight money market interest rate being close to the upper limit of the Central Bank's interest rate corridor.

In order to avoid deterioration of inflation expectations due to the rise in oil prices and other cost factors, additional monetary tightening was implemented on various days in March, April, May and June in 2012. These monetary tightening operations contributed to the elimination of excessive exchange rate volatility, supporting price stability and financial stability.

As inflation decreased, monetary policy gradually assumed a more accommodative role in the second half of the year. The improvement in global risk appetite and the decrease in the current account deficit also facilitated the gradual change in monetary policy. From June 2012 onwards, the Central Bank reduced the average cost of funding by injecting more liquidity into the market. Meanwhile, short-term money market rates moved closer to the lower limit of the interest rate corridor in the middle of the year.

Following September 2012, decisions taken by the European Central Bank reduced the tail risks regarding the global financial system. Moreover, ROM was implemented more effectively. Considered together, these developments facilitated a gradual lowering in the upper limit of the interest rate corridor. The overnight lending rate was reduced from 11.5% to 10% in September 2012 and further reduced to 9.5% in October 2012 and to 9% in November 2012. In December 2012, the Central Bank slightly reduced the policy rate by 25 basis points to 5.5% while introducing a modest tightening for foreign exchange reserve requirements in order to balance the risks posed by the accelerating capital inflows.

Overall, 2012 was marked by a more evident rebalancing process and a stable disinflation trend. Although inflation increased to double digit rates due to the depreciation in the Turkish lira and the increases in commodity prices in 2011, inflation expectations were contained, as a result of the tight monetary policy of the Central Bank. Consumer inflation declined to 6.16% by the end of 2012, which is the lowest level of consumer inflation in the last 44 years.

Capital inflows continued to be strong until May 2013. In this period, the Central Bank gradually lowered policy rates to counterbalance risks to financial stability stemming from capital inflows. Overnight lending and borrowing rates were lowered by 25 basis points consecutively in January and February. Moreover, as the need for a wide interest rate corridor decreased thanks to the ROM's automatic stabilizer feature, the overnight lending rate was lowered by 100 basis points in March. Due to ongoing policy rate cuts in other emerging market economies and the acceleration of capital flows into Turkey, the policy rate, the overnight lending rate and the borrowing rate were cut by 50 basis points in April and May, consecutively.

As credit expansion remained above the reference value of 15%, Turkish lira and foreign exchange reserve requirement ratios were raised for some maturities in the first half of 2013 before May 2013. Also, measures were taken to increase the foreign exchange reserves of the Central Bank through ROM.

Following the global financial uncertainties that started in May 2013, Turkey, along with other emerging economies, experienced portfolio outflows, as well as increased risk premiums and depreciated exchange rates. The depreciation in the Turkish lira coupled with other factors such as rising unprocessed food prices and oil prices had an adverse effect on inflation. To contain the deterioration in inflation outlook, the Central Bank tightened monetary policy in the second half of the year. The upper bound of the interest rate corridor was raised by 75 and 50 basis points, in July and August, respectively, in order to counteract global uncertainties, the depreciation of the Turkish lira and high inflation from deteriorating overall pricing behavior. Moreover, the Central Bank changed the composition of liquidity provision and brought the overnight interbank rate close to the upper bound of the corridor by implementing additional monetary tightening.

The Central Bank also took measures to increase the predictability of the Turkish lira liquidity policy to curb the impact of global monetary policy uncertainties on the domestic economy. Accordingly, the Central Bank adopted a strategy towards reducing interest rate uncertainty. Consequently, the Central Bank started to announce additional monetary tightening days in advance and conduct foreign exchange selling auctions on these days to increase the effectiveness of additional monetary tightening. In November, one-month repo auctions were terminated and liquidity composition was mostly shifted to overnight funding to keep interbank money market rate around 7.75%. In addition, it was announced in December that the average funding cost of the Central Bank would be kept at or above 6.75%. These measures led to a fall in the volatility of overnight interest rates.

Having hovered above the uncertainty band throughout 2013, the inflation rate climbed to 7.4% by the end of the year. Annual consumer inflation was mostly shaped by unprocessed food and energy prices in 2013. Tax adjustments on tobacco products pushed inflation up in January and inflation maintained a volatile course in the

subsequent period due to the unprocessed food and energy prices, completing the first half of the year significantly above the values implied by the target. In the second half of the year, weak capital flows driven by the uncertainty regarding global monetary policies caused the Turkish lira to depreciate, which increased core inflation indicators particularly via the core goods group. Against these developments, inflation expectations slightly deteriorated in the last 6 months of the year.

Throughout 2014, inflation was volatile and remained at high levels. Main drivers of inflation were the exchange rate pass-through, especially via core goods prices, as well as the sharp increase in food prices due to drought and other adverse weather conditions. On the other hand, plummeting oil prices and partial correction in unprocessed food prices limited the deterioration in inflation.

Due to external and internal developments that affected risk perceptions in early 2014, the Turkish lira depreciated significantly and risk premiums increased notably. In order to contain the negative impact of these developments on inflation and macroeconomic stability, the CBRT decided at its interim MPC meeting on January 28, 2014, to deliver a strong and front-loaded monetary tightening and to simplify its operational framework. Accordingly, the marginal funding rate was raised from 7.75% to 12%, and the CBRT borrowing rate from 3.5% to 8%. Moreover, the late liquidity lending rate was increased from 10.25% to 15%. With regard to the simplification of the operational framework, the CBRT decided to provide liquidity from the one-week repo rate instead of the marginal funding rate, and the one-week repo rate was increased from 4.5% to 10%. In this sense, the CBRT ceased to implement additional monetary tightening.

Uncertainties regarding the monetary policy implementation in developed economies eased markedly in mid-2014. Favorable global liquidity conditions and increased risk appetite once again directed capital flows into emerging economies. In Turkey, the risk premium indicators recorded a notable improvement due to reduced domestic and external uncertainty. Hence, conditions that necessitated the strong and front-loaded monetary tightening of in the first quarter of 2014 improved to a large extent. In addition, due to the decline in energy prices and improvement in non-food inflation indicators in the second half of the year, the CBRT delivered gradual and measured rate cuts between April and August 2014. The late liquidity window lending rate was reduced from 15% to 13.5% in April 2014. In May and June, 2014, due to improvements in global liquidity conditions, waning uncertainties and improvements in risk premium indicators, the one-week repo rate was reduced by 50 and 75 basis points, respectively. Following these decisions, the rate on the funding through quantity auctions was lowered to 8.75%. The CBRT reduced the one-week repo rate to 8.25% and the overnight borrowing rate from 8% to 7.5% in July. Lastly, in August 2014, the marginal funding rate was reduced from 12% to 11.25% and the late liquidity window lending rate was reduced from 13.5% to 12.75% in August. While opting for moderate rate cuts, the CBRT maintained its tight monetary policy stance by keeping the yield curve nearly flat. Despite these rate cuts, the yield curve remained flat throughout 2014 since long-term rates remained at relatively low levels, which was an indication of a cautious monetary policy stance.

After the interim meeting in January 2014, in line with the decision to simplify the operational framework of the monetary policy, the CBRT continued to provide liquidity to the system mainly through one-week repo auctions. The provision of the CBRT funding mostly by one-week repo auctions led the average CBRT funding rate to hover around the weekly funding rate. Therefore, moderate rate cuts delivered due to waning domestic and external uncertainties after April 2014 were also reflected in the average funding rate. In September 2014, in view of the heightened geopolitical tensions and the financial market volatility, the tight monetary policy stance was invigorated by a tight liquidity policy. Thus, the BIST overnight repo rates that hovered around the one-week repo auction rate in July and August settled close to the upper end of the interest rate corridor.

In November 2014, in order to encourage prudent borrowing, the CBRT announced an increase in the FX reserve requirement ratios on the non-core liabilities of banks and finance corporations. The increase in FX reserve requirement ratios are structured in a way to promote longer-term borrowing. Moreover, to foster core liabilities, the Central Bank announced in October 2014, that it will start to remunerate the Turkish lira component of required reserves of financial institutions with higher core liability ratios (ratio of deposits and equity to loans) than the sector average, at a higher rate, provided they do not worsen their situation. These measures aim to further strengthen the structure of the banking sector, with the goal of increasing financial stability and spurring balanced growth and domestic savings.

The macro-prudential measures and the tight monetary stance led to a notable improvement in the core inflation trend during the second half of 2014. However, elevated food prices and the delayed effects of exchange rates caused inflation to hover significantly above the target throughout the whole year. Although a decline was recorded in the last quarter, annual CPI inflation was above the uncertainty band around the inflation target by the end of 2014. Annual consumer inflation increased to 8.17% at the end of 2014, a rise of 0.8% compared to 2013. The underlying inflation trend in seasonally adjusted terms followed a downward path during the second half of 2014, despite the high levels of core inflation indicators throughout the year; inflation in core goods and services also decreased.

The Central Bank has changed its balance sheet structure in accordance with IMF agreements. The restructured balance sheets have been derived from the Central Bank Analytical Balance Sheet, as shown below:

Table 33

Selected Central Bank Balance Sheet Data

	2010	2011	2012	2013	2014
<i>(in millions of Turkish Lira)</i>					
ASSET	128,463.5	146,213.6	202,022.1	265,857.7	281,900.3
Foreign Assets	135,575.3	173,108.8	215,570.2	283,465.2	299,420.5
Domestic Assets	-7,111.7	-26,895.2	-13,548.2	4,556.9	5,336.8
Cash Operations	134.1	-6,696.4	107.2	—	—
FX Revaluation Account	-7,245.8	-20,198.7	-13,655.4	-22,164.5	-22,857.0
IMF Emergency Assistance	0.0	0.0	0	—	—
LIABILITY	128,463.5	146,213.6	202,022.1	265,857.7	281,900.3
Total Foreign Liabilities	57,846.2	93,060.0	137,624.1	199,760.1	207,749.8
Liabilities to Non-Residents	21,002.9	21,779.3	16,605.1	16,065.2	10,778.9
Liabilities to Residents	36,843.3	71,280.7	121,019.1	183,695.0	196,970.9
Central Bank Money	70,617.3	53,153.6	64,397.9	66,097.5	74,150.5
Reserve Money	75,987.0	84,047.4	77,572.4	91,207.3	107,221.1
Currency Issued	48,937.6	55,103.2	60,525.5	74,814.6	85,118.2
Deposits of Banking Sector	26,806.0	28,782.1	16,655.5	16,086.1	21,595.0
Extra Budgetary Funds	104.7	108.0	333.6	242.1	203.3
Deposits of Non-Banking Sector	138.8	54.2	57.8	64.5	304.5
Other Central Bank Money	-5,369.7	-30,893.8	-13,174.5	-25,109.8	-33,070.5
Open Market Operations	-10,913.1	-39,128.7	-19,400.1	-38,873.4	-46,421.9
Deposits of Public Sector	5,543.4	8,234.9	6,225.7	13,763.7	13,351.3

Source: CBRT

The following table presents key monetary aggregates for the dates indicated:

Table 34

	2010	2011	2012	2013	2014
M1	135,190.57	161,212.85	179,934.55	229,370.15	258,293.54
M2	587,261.18	674,409.58	743,043.39	908,004.75	1,015,896.40
M3 (M2 + funds received from repo transactions + money market funds + debt securities issued by banks)	615,442.86	708,766.69	783,455.10	948,671.07	1,060,143.20

M1 = Currency in circulation + Demand deposits (TRY, FX)

M2 = M1 + Time deposits (TRY, FX)

Source: CBT

The following table presents the discount rates of the Central Bank for the dates indicated:

Table 35
Discount Rates

<u>Year</u>	<u>Discount Rates</u>
2009	15%
2010	14%
2011	17%
2012	13.5%
2013	10.25%
2014	9.0%

Source: CBRT

BANKING SYSTEM

The Banking Act (Law No. 5411) was prepared in accordance with EU directives and international principles and standards and published in the Official Gazette dated November 1, 2005 (No. 25983), with the aim of:

- Setting markets to an active, regular and transparent structure;
- Protecting the rights of the individual customers who use financial services;
- Setting the Banking Regulation and Supervision Agency's (the "BRSA") structure, and its duties and responsibilities to be more elastic and sensitive to the market's needs;
- Performing the functions of regulation and supervision of the activities of banks, financial holding companies, leasing companies, factoring companies, consumer financing companies, independent audit firms, asset management companies, valuation institutions, rating institutions and outsourcing institutions;
- Making the management and organization structures of the institutions covered by Law No. 5411 more sensitive, elastic, and open to dialogue;
- Expanding prudent governance by implementing corporate governance principles;
- Integrating the Turkish banking system in international markets;
- Granting permissions for the establishment and/or operations of banks, financial holding companies, leasing companies, factoring companies, consumer financing companies, independent audit firms, asset management companies, valuation institutions, rating institutions and outsourcing institutions with some supervision;
- Establishing a sufficiently flexible regulation and supervision system and regulation structure to answer the changing conditions of the financial markets;
- Protecting fundamental principles such as transparency and equality between various parts of the financial system;
- Establishing and generalizing confidence and stability in the financial markets;
- Predicting risky developments in the financial markets;
- Decreasing the transaction and intermediation costs in the banking sector;
- Making the strategies and policies of the BRSA compatible to the road maps of the financial markets; and
- Establishing procedures for the exchange of information between the BRSA and related authorities.

The Turkish banking system is currently regulated and supervised by the BRSA which is an independent public entity with administrative and financial autonomy that has supervised banks and certain other financial institutions since August 31, 2000. The BRSA, whose administrative body is the Banking Regulation and Supervision Board (“BRSB”), was established under the Law No. 4389, as amended by the current Banking Law (Law No. 5411).

The Savings Deposit Insurance Fund (“SDIF”) is a public legal entity with independent authority and duty to insure savings deposits and resolve instances where the BRSA intervenes in banks through the transfer or merger of these banks with another bank, the transfer of its shares to third parties, or liquidation. The duties and powers of SDIF are currently regulated by the Banking Law.

In addition to the CBRT, 51 banks were operating in Turkey as of the end of 2014, including 13 investment and development banks, 4 participation banks, 32 commercial banks and 2 SDIF banks. As of year-end 2014, of the commercial banks in the sector, 3 were state banks, 10 were private banks and 19 were foreign banks. Between 2013 and 2014, it is observed that the share of local private banks in the sector by asset size slightly decreased from 50.7% to 49.5%, while the share of foreign banks increased from 18.5% to 19.2%. During that period, the share of state banks increased from 30.8% to 31.3%.

Total assets of the Turkish banking system, which was U.S.\$656.5 billion in 2010, has increased 31% and reached U.S.\$859.9 billion as of end of 2014. The total loan portfolio similarly has increased from U.S.\$343.1 billion in 2010 to U.S.\$535.5 billion in 2014 with a 56.1% increase. Parallel to this trend, share of loans in total assets has increased from 52.2% to 62.2%. This indicates that the intermediary function of banks has increased, as well. Non-performing loans, which amounted to approximately U.S.\$13 billion in year-end 2010, increased to U.S.\$15.7 billion as of December 2014. The increase in non-performing loans during the 2010-2014 period was 20.4%. The non-performing loan ratio, which was 3.7% in 2010, decreased to 2.7% in 2011, increased slightly to 2.9% in 2012 and then decreased to 2.8% in 2013. After that the non-performing loan ratio increased slightly to 2.9% as of December 2014. The amount of provisions set aside for these loans was U.S.\$11.6 billion and provisioning rate was 73.8% which was well above the required regulatory levels in 2014. Securities portfolio also has a significant part on the balance sheets of banks. The total amount of the securities portfolios was U.S.\$130 billion as of December 2014. However, the share of securities in total assets has decreased from 28.6% in 2010 to 15.1% by the end of 2014.

Table 36

Main Figures of Banking Sector*

Billion USD	2010	2011	2012	2013	2014
Total Assets	656.5	644.7	771.1	813.2	859.9
Loans	343.1	361.5	447.1	491.6	535.5
Securities Portfolio	187.7	150.9	151.9	134.6	130.0
Deposits	402.4	368.2	434.4	443.9	454.3
Own Funds	87.7	76.6	102.4	90.9	99.9

* Includes the data of participation banks.

Source: BRSA

Table 37

Share of Main Figures by Bank Groups

	LOANS					TOTAL ASSETS					DEPOSITS					OWN FUNDS				
	2010-12	2011-12	2012-12	2013-12	2014-12	2010-12	2011-12	2012-12	2013-12	2014-12	2010-12	2011-12	2012-12	2013-12	2014-12	2010-12	2011-12	2012-12	2013-12	2014-12
% Shares	91.1	91.0	90.1	89.7	90.2	92.5	91.9	91.0	90.4	90.4	94.6	94.4	93.8	93.5	93.8	85.0	84.6	86.2	85.3	86.4
Commercial Banks	27.4	26.5	25.3	26.5	27.4	29.7	28.0	27.5	27.9	28.2	35.6	32.4	31.9	31.8	30.4	21.9	21.5	22.8	23.3	25.8
-State Owned	48.7	51.2	51.0	49.0	48.4	49.4	50.8	50.5	48.0	47.7	47.3	50.0	48.7	47.8	48.3	49.4	50.1	50.5	48.8	47.6
-Private	15.0	13.2	13.9	14.3	14.4	13.5	13.0	13.0	14.5	14.6	11.7	12.0	13.2	13.9	15.1	13.7	13.0	13.0	13.3	13.0
Participation Banks	5.9	5.6	6.0	5.9	5.2	4.3	4.6	5.1	5.5	5.2	5.4	5.6	6.2	6.5	6.2	4.1	4.3	4.1	4.6	4.2
Inv. & Dev. Banks	3.0	3.4	3.8	4.4	4.7	3.1	3.4	3.8	4.0	4.2	0.0	0.0	0.0	0.0	0.0	10.5	10.7	9.3	9.8	9.1
SDF	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.4	0.3	0.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BRSA

Table 38

Main Indicators of Turkish Banking Sector

(%)	2010-12	2011-12	2012-12	2013-12	2014-12
1 NPL RATIO (*)	3.7	2.7	2.9	2.8	2.9
2 CAPITAL ADEQUACY RATIO	19.0	16.6	17.9	15.3	16.3
3 LOAN TO DEPOSIT RATIO (*)	88.5	101.0	106.1	114.1	121.6
4 RETURN ON ASSETS (ROA)	2.5	1.7	1.8	1.6	1.3
5 RETURN ON EQUITY (ROE)	20.1	15.5	15.7	14.2	12.2
6 NET INTEREST MARGIN	4.3	3.5	4.1	3.7	3.5
7 TOTAL ASSETS / GDP	91.6	93.8	96.7	110.9	114.0
8 LEVERAGE RATIO	9.9	8.8	9.8	8	8.3

(*) *Leasing receivables and non-performing loans included in total loans.*

Source: BRSA

Moreover, main indicators of Turkish banking sector (see table above) show that with its independent regulatory and supervisory authority, careful consideration for banking licenses, compliance with international standards, risk-based supervision, capital adequacy ratio which is well above the regulatory level, liquidity regulations and BRSA approval for profit distribution, the Turkish banking sector has strong fundamentals.

The capital structures of banks in the system were the core of the restructuring program which was implemented in May 2001 and finalized in 2004. A three-phase audit was implemented to understand the capital structures of private banks. As of December 2014, the average capital adequacy ratio of the whole sector was 16.28%. As of January 2014, banks began to calculate capital adequacy ratio according to Basel III rules.

The universal banking system in Turkey allows commercial banks to engage in banking and other financial services. Three of the commercial banks in Turkey are state-owned banks. The major commercial banks are internationally recognized institutions with nationwide branch networks and deposit bases. Banks are permitted to deal in foreign exchange and to borrow and lend in foreign currency. On June 16, 2009, a Council of Ministers decision (No. 14803) regarding the foreign currency lending practices in Turkey was published in the Official Gazette (No. 27260). This regulation aims to facilitate the foreign currency lending practices of the corporate sector in Turkey by easing restrictions on Turkish companies' ability to obtain foreign currency loans. Also, the regulation prohibits individual residents from borrowing foreign currencies from banks.

State Banks

Priority was given to the financial restructuring of state banks during the May 2001-2004 period. Simultaneously with the strengthening of their financial structure, operational restructuring studies were initialized. The main objective of the latter is to re-build organizational structure in compliance with the requirements of contemporary banking and international competition.

As a first step in 2001, management of the two state banks was transferred to the Joint Board of Directors. The Board was granted the authority to restructure and prepare the state banks for privatization. In order to reduce their short-term liabilities, state banks obtained liquidity through repo or the outright sale of government securities to the Central Bank and fully eliminated their short-term liabilities (amounting to TL 8.5 quadrillion as of March 16, 2001) to private banks and non-bank entities (excluding those to the Central Bank). Fully released from short term and costly funding needs upon the financial support provided within the program, the state banks started to conduct their operations and transactions with a view to competition and profit-maximization. State banks' deposit interest rates began to be determined uniformly and below the interest rates of the government securities. Thereafter, deposit interest rates of the state banks showed a development parallel to the decrease in interest rates generally.

State banks have become better at identifying problematic loans and setting aside appropriate provisions for such loans, which has increased transparency. The non-performing loans portfolio of the 3 deposit-taking state banks was TL 4,879 million as of December 2010 and TL 10,391 million as of December 2014. The provision made for these non-performing loans was TL 4,279 million in 2010 and increased to TL 8,080 million in 2014. The non-performing loan ratio of state banks has decreased from 3.3% in 2010 to 3.0% in 2013.

In order to strengthen the capital structure of state banks, funds in the form of both securities and cash were injected into these banks. As a result, own funds of three state banks increased to TL 29.5 billion as of December 2010 and TL 31.1 billion as of December 2011. The equity capital of those banks was TL 41.4 billion as of December 2012 compared with TL 45.1 billion as of December 2013. By the end of 2014, their equity capital reached TL 59.8 billion. Capital injections as well as the increased share of Treasury papers carrying zero risk-weight contributed to the increase in capital adequacy. The state banks determine lending rates while taking into account funding costs in order to achieve efficiency and profitability.

Table 39

Aggregated Balance Sheet of State Banks

(million TL)	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2010	% Share Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014
Assets										
Cash and Claims on Banks	21,542	17,922	19,734	21,551	21,980	7.2	5.2	5.2	4.5	3.9
Securities Portfolio	109,942	110,287	101,291	108,854	106,644	36.8	32.3	26.9	22.5	19.0
Loans	144,053	181,222	200,849	277,040	340,448	48.2	53.1	53.3	57.3	60.6
Loans under Follow-Up (Net)	600	632	1,405	1,485	2,310	0.2	0.2	0.4	0.3	0.4
-Loans under Follow-Up	4,879	4,689	6,742	8,194	10,391	1.6	1.4	1.8	1.7	1.8
-Provisions for Loans under Follow-Up(-)	4,279	4,056	5,338	6,709	8,081	1.4	1.2	1.4	1.4	1.4
Duty Losses	—	—	—	—	—					
Other Assets	22,457	31,486	53,438	74,448	90,786	7.5	9.2	14.2	15.4	16.1
Liabilities						0.0	0.0	0.0		
Deposit (1)	219,599	225,330	246,335	300,536	319,729	73.5	66.0	65.4	62.2	56.9
Borrowings from Banks (2)	17,768	29,637	36,490	55,661	69,654	6.0	8.7	9.7	11.5	12.4
Other Liabilities	31,766	55,497	52,483	82,053	112,937	10.6	16.2	13.9	17.0	20.1
Shareholder's Equity	29,461	31,116	41,409	45,129	59,848	9.9	9.1	11.0	9.3	10.6
Balance Sheet Total	298,593	341,550	376,716	483,378	562,168	100.0	100.0	100.0	100.0	100.0

(1) Interbank deposits are excluded.

(2) This item includes interbank deposits and interbank money market transactions.

Source: BRSA

In the aftermath of the restructuring of state banks, a positive impact of such financial and operational restructuring is apparent in the profitability performance of the state banks. As of December 2010, the total profit of three state banks was TL 6,880 million (Ziraat Bankasi TL 3,713 million, Halk Bankasi TL 2,010 million and Vakifbank TL 1,157 million) and in 2011, the total profit of these banks reached TL 5,373 million (Ziraat Bankasi TL 2,101, Halk Bankasi TL 2,045 and Vakifbank TL 1,227 million). As of December 2012, total profit of these banks was TL 6,706 million (Ziraat Bankasi TL 2,650 million, Halk Bankai TL 2,595 million and Vakifbank TL 1,460 million). In 2013 the total profit of these three banks was TL 7,666 million (Ziraat Bankasi TL 3,330 million, Halk Bankasi TL 2,751 million and Vakifbank TL 1,586 million). As of December 2014, total profit of these three state banks reached TL 8,010 (Ziraat Bankasi TL 4,051 million, Halk Bankasi TL 2,206 million and Vakifbank TL 1,753 million).

The SDIF Banks

After the BRSA began operating on August 31, 2000, the SDIF has taken over 25 private banks. Of these 25 banks, banking operating licenses of 5 banks were revoked and bankruptcy orders were issued for these banks and the management and control of 20 other banks were transferred to the SDIF along with the shareholders rights except dividends. The SDIF banks were subjected to an intensive financial and operational restructuring process following their takeover, including the following:

- short-term liabilities were liquidated;
- FX open positions were considerably reduced;
- deposit rates were decreased and brought in line with market rates;
- deposit and FX liabilities were transferred to other banks; and
- branch and personnel numbers were cut down to reasonable levels.

Total cost of financial restructuring and repayment of insured deposits amounted to U.S.\$31.1 billion for 25 banks. Of this amount, U.S.\$27.2 billion was obtained from public sector resources (the Undersecretariat of Treasury and the CBRT), and U.S.\$4.2 billion from private sector resources (i.e., from the SDIF's own resources). A considerable portion of the SDIF's income comes from insurance premiums collected from banks. Cash penalties, collections, income generated from bank sales and deposits which have been subject to prescription constitute other sources of income for the SDIF. As part of the resolution operations, of the amount of U.S.\$27.2 billion obtained from public sector resources, U.S.\$13.2 billion was repaid to the Undersecretariat of Treasury and the CBRT as of December 31, 2014 and the SDIF will continue to repay the remaining amount. With a view to accelerate the resolution of the SDIF banks, their deposits and foreign exchange liabilities were transferred to other banks. An important portion of the SDIF banks' deposits were sold to other banks through a series of auctions, backed by matching government securities portfolios. Auctions were realized within a separate bidding process for pools of TL and foreign exchange deposits in 5 stages. As a result of these auctions, TL 479 million and U.S.\$2.59 billion in foreign exchange denominated deposits were transferred to 8 private banks.

Recovery Activities

As a result of the proceedings carried out with powers entrusted to the SDIF by Banking Law and Act No. 6183 on Procedures for Collection of Public Receivables the SDIF made significant progress in effective collection of public receivables. The total amount of collections made as a result of resolution operations reached U.S.\$21.18 billion as of December 31, 2014. Of this amount, U.S. \$749 million was collected in 2014.

When the distribution of resolution revenues is examined it is seen that of the total amount of U.S.\$749 million collected in 2014, U.S.\$597 million was collected from non-performing receivables, U.S.\$131 million was collected from subsidiaries, real estate and movables, and U.S.\$21 million was collected from Banks under the management of the SDIF.

Collection of Non-Performing Receivables

As a part of resolution of banks transferred to the SDIF, a total of 208,103 files of receivables worth TL8.8 billion were transferred and assigned from the relevant banks and through other firms as of the end of 2014. Twenty-two files of receivables were transferred and assigned in 2014. All files were acquired free of charge. The net amount of collections (after deducting refunds from collection of U.S.\$597 million) from non-performing loans of the SDIF in 2014 totaled U.S.\$327.2 million. Of this amount, U.S.\$176.47 million was transferred to the accounts to be apportioned until the completion of legal and deduction procedures.

Receivables from Bank Majority Shareholders

The SDIF collects receivables acquired from majority shareholders and those stemming from misuse of bank resources by majority shareholders via proceedings under Law No. 2004 and Law No. 6183, and protocols, which are agreements relating to payment of debts, or Financial Restructuring Agreements (FRAs) signed with majority shareholders or by exercising the authority entrusted by the Banking Law.

The SDIF has completed deals with bank majority shareholders relating to loans and terms of refunds, and has made substantial progress in collecting public receivables. If a bank majority shareholder does not fulfill its obligations, including not making duly or timely payments as required by the protocols, the SDIF intends to exercise its legal rights under any protocol or FRA.

Status of Certain Majority Shareholders:

Cukurova: U.S.\$28.36 million was collected from Cukurova Group as of December 31, 2014 as part of the protocol dated May 15, 2009 and signed in order to collect the bank's fund acquired by Cukurova Group companies during the sale of Interbank to Nergis Group. U.S.\$26.41 million was collected from Cukurova group in 2014 to cover tender price of BMC Commercial and Economic Integrity for the receivables resulting from the Supplementary Protocol dated October 1, 2007. The total amount of collections from Cukurova Group including those made as a part of the protocols as well as pre-protocol collections and default interests, has hit U.S.\$2.26 billion as of December 31, 2014.

Bayindirbank: On December 27, 2012, the SDIF announced a default on certain provisions of the FRA signed on October 25, 2002, among Bayindir Group, the SDIF, and 16 other creditor banks and finance institutions, against the Bayindir Group. Legal proceedings are in progress against debtors and legal representatives in accordance with Law No. 6183. The SDIF took over shareholder rights, except dividends and management of Bayindir İnşaat Turizm Ticaret ve Sanayi AŞ. and Bakara İlaç ve Tibbi Malzeme Pazarlama Diş Ticaret AŞ., in accordance with the provisions of Banking Law No.5411. A protocol was signed between the SDIF and the shareholders of Bakara İlaç ve Tibbi Malzeme Pazarlama Diş Ticaret AŞ., the management of which was taken over by the SDIF. The total amount of collections from Bayindir Group stood at U.S.\$61.09 million as of December 31, 2014.

Imar Bankasi: In accordance with the provisions of Law No. 6183 and the provisions of Article 15 of Banking Law No. 4389 abolished and amended by Law No. 5354, the SDIF continued to track and collect goods, rights and assets seized in line with the provisions of Law No. 6183. The gross collection from the Imar Bankasi reached U.S.\$7.50 billion as of December 31, 2014. Of this amount, a total of U.S.\$6.56 billion was transferred to third parties, public institutions and organizations in accordance with the Law on Amendment for Banking Law No.5472 amended by clause 5 of Article 134 of Banking Law No. 5411, and provisions of provisional Article 24. In addition, U.S.\$13.19 million in collection tracked in apportioned accounts will be apportioned in accordance with the priority lists to be formed upon the conclusion of the lawsuit subject to various appeals. U.S.\$38.34 million was collected from Imar in 2014. The total amount of net collections amounted to U.S.\$928.31 million as of December 31, 2014.

Balkaner: The follow-up and collections associated with third parties and companies, to which Ali Avni Balkaner, the majority shareholder of the Yurtbank, transferred the bank resources, are still in progress within the framework of clause 7-b of Article 15 of Banking Law No. 4389 and of Article 134 of Banking Law No. 5411. U.S.\$42.97 million was collected from Balkaner Group in 2014, including the amount obtained from the sale of Bayramoğlu Commercial and Economic Integrity. The total amount of collections from Balkaner Group and affiliated third party debtors reached U.S.\$275.13 million as of December 31, 2014.

Litigation

Several claimants have filed claims against the Republic ranging from U.S.\$750 million to U.S.\$19 billion before the International Center for the Settlement of Investment Disputes (ICSID) or under the United Nations Commission on International Trade Arbitration Rules (UNCITRAL) alleging either that (a) they have been harmed because SDIF's takeover of banks indirectly impaired their investments in companies affiliated with these banks or their shareholders, without adequate compensation, or (b) they have been indirectly harmed because the Republic cancelled certain contracts with companies in which they allege they held investments. The Republic believes that it has meritorious defenses to all of these claims. While the Republic does not believe that such proceedings will in aggregate have a material adverse impact on the Republic, the outcome of these arbitration proceedings is uncertain. Five of the claims against the Republic previously before ICSID and two of the claims before UNCITRAL have been dismissed.

There exists another UNCITRAL case initiated against Azerbaijan Government, which has been settled. Deep Woods, situated in New York, filed an action (claiming U.S.\$16 million) against the SDIF relating to an agreement between the parties. The case was finalized against the SDIF and upon our application to the Court of Appeal the aforementioned Court reversed the judgement in favor of the SDIF. Following the application of Deep Woods the Supreme Court of the United States approved the decision. Then the decision became final.

Certain arbitration cases are being handled by different Ministries. For instance Cem Uzan, alleging he has shares of ÇEAŞ- KEPEZ, initiated arbitration procedures against the Republic requesting payment in the amount of €2.5 billion. The claim is still pending and is being handled by the Ministry of Energy and Natural Resources. After the İmar Bank was taken over by SDIF, the liquidation process of the İmar Bank was under the control of SDIF. As the liquidation procedure is conducted by SDIF, the Ministry requests that SDIF provide documents and information with respect to the Uzan Group. Furthermore, the Ministry requests that SDIF provide its comments on the documents/petitions/expert reports submitted by the counterparty.

Further, Uzan, Süzer, Cingilli Groups and Yaşar Holding have filed a number of cases against the Republic in the European Court of Human Rights. These cases are generally handled by the Ministry of Justice. These cases are related to each bank being taken over by SDIF. The documents and information with respect to these cases are provided by SDIF for the Ministry, and SDIF provides comments on any counterparty petitions to the Ministry.

The following tables present key activities of the SDIF for 2014:

Table 40

Resolution Activities, Financial Objectives and Realizations for 2014 (USD in millions)¹

	Year 2014			Cumulative Realization as of 12.31.2014	Year 2015 Performance Objective
	Performance Objective ²	Realization	Realization Rate (%)		
Reserve (beginning of the period)	336	336	100.00		548
Resolution Income³	657	749	114.00	21,184	621
Borrowing⁴	—	—	—	27,206	—
Amount Transferred From Deposit Insurance Income	—	—	—	4,227	—
Financial Income (interest etc.)	19	21	110.53	955	23
Collections taken in Consignment⁵	117	117	—	117	
Resolution Expenses	(131)	(50)	38.17	(31,027)	-146
Off Shore Lawsuit Payments⁶	(40)	(40)	—	(74)	
Payments to Treasury	(178)	(175)	98.31	(11,764)	-615
Advance Payments to the CBRT	—	—	—	(1,418)	—
Payments to Other Institutions/Organizations	(262)	(281)	107.25	(7,336)	-46
Payments From Deposit Collections⁵	(107)	(107)	—	(107)	—
Evaluation and Valuation Difference ⁷	(23)	(22)	95.65	(1,415)	24
Reserve (end of the period)⁸	388	548	141.24	548	409

1. The figures in the table are calculated based on the total transactions made by the SDIF in cash and in Government Debt Securities and exchange rates on the day of the transactions.
2. The amount of cash projections made every 3 months by the SDIF in accordance with the “Principles and Procedures on Transferring SDIF’s Cash Surplus to the Accounts of the Undersecretariat of Treasury” as a part of Law No. 5787, is based on the performance objectives.
3. Gross collection figures are taken into account for resolution income. Transactions such as refunds or payments made out of collections are not deducted from the relevant amounts.
4. U.S.\$1,329 million of the borrowing amount consists of advance payments from the CBRT.
5. Collections consists of the payments made for deposit accounts of the SDIF with regard to commercial transactions of the BMC Sanayi ve Ticaret A.S., and of the payments made from these accounts.
6. Off-shore lawsuit payments consists of payments made in connection with court orders concerning off-shore lawsuits.
7. The evaluation and valuation difference is the result of exchange rates as the figures are presented in USD.
8. U.S.\$418 million of the relevant amount is composed of blocked accounts where one follows up collections about which efforts to create order tables are ongoing and collections about which legal proceedings are ongoing. The remaining amount (U.S.\$130 million = U.S.\$548 million – U.S.\$418 million) is composed of precautionary reserve of U.S.\$100 million, which is kept in the SDIF to enforce resolution activities and free reserve (U.S.\$30

million) which will be transferred to the Undersecretariat of Treasury in case the amount goes beyond U.S.\$20 million in accordance with the “Principles and Procedures on Transferring SDIF’s Cash Surplus to the Accounts of the Undersecretariat of Treasury.”

Table 41

Distribution of resolution revenues (USD in millions) ¹

	<u>Cumulative as of 12.31.2013</u>		<u>Year 2014</u>	<u>Cumulative as of 12.31.2014</u>	
Resolution Revenues (Gross)²	A.	20,435	B.	C.	21,184
- Collections From Non-Performing Loans	D.	15,979	E.	F.	16,576
- Collections from Subsidiaries	G.	707	H.	I.	711
- Collections from Real Estate and Movables ³	J.	971	K.	L.	1,098
- Collections from Banks under the management of the SDIF (Transferred to Fund+ Licenses revoked)	M.	2,522	N.	O.	2,543
- Other Collections	P.	256	Q.	R.	256
Financial Revenues	S.	<u>934</u>	T.	U.	<u>955</u>
Total	V.	<u>21,369</u>	W.	X.	<u>22,139</u>

- ¹ Figures shown in the table are based on SDIF's transactions in cash. The collections in kind yet to be turned into cash are not included in the table. Such collection amount in kind yet to be turned into cash reached U.S.\$302.55 million by the end of 2014.
- ² The amount of gross collections is taken into consideration for resolution revenues. Transactions such as refunds or payments made out of collections are not deducted from the relevant amounts.
- ³ The sale price of the Balkaner Group and Bayramoglu Real Estates was \$U.S.90 million in 2014 and the interest sum is presented under the collections from real estates and securities.

Regulatory and Supervisory Framework

Parallel to the financial and operational restructuring of the banking sector, necessary laws and institutional arrangements have been realized. These efforts aimed to strengthen the regulatory and supervisory framework to ensure efficiency and competitiveness in the banking sector and facilitate sound banking practices, thus establishing confidence in the sector. The legal framework in place has become almost fully harmonized with international standards.

In the process of preparing the Banking Act No. 5411, international standards were considered. The main highlights of the Banking Act No. 5411 with respect to regulation and supervision include:

- The BRSA supervision of banks, financial holding, leasing, factoring and consumer finance companies, independent audit firms, asset management companies, valuation, rating and outsourcing institutions.
- Conformity with EU Directives in terms of the activities that banks are allowed to perform.
- Increased transparency of the BRSA.
- Establishing principles of corporate governance for Turkish banks and financial holding companies.
- The paid-up capital for establishment of banks cannot be less than TL 30 million and increase in capital must be paid in cash free from any collusion and without using internal resources, excluding resources permitted to be added to capital by the related legislation.
- Disclosure by banks of their most recent articles of association on their web sites to increase transparency.
- The establishment of audit committees within banks to conduct the audit and supervisory functions of their executive boards.
- Prohibiting the transfer of resources to finance deficits of funds established by the institutions exclusively for their employees that provide health, social aid and retirement benefits.
- Grants extended by banks and institutions subject to consolidation in a fiscal year shall not exceed 0.4% of the bank's shareholders' equity. However, half of these grants shall be extended to areas that are exempted from taxes by law.

The regulations set forth in Banking Act No. 5411 have been implemented since the end of October 2006. The regulations were prepared by revising the related previous regulations and by making necessary adjustments to be in line with the international codes and standards using European Union Directives, the Basel Committee on Banking Supervision (BCBS) Principles, Corporate Management Principles of OECD, the Acts of European Union Member and candidate countries. The regulations concentrate on capital adequacy, risk management, lending and subsidiary limits, loan loss provisioning, compliance with International Accounting Standards, independent auditing and cooperation with foreign supervisory authorities. Regulations regarding leasing, factoring and financing companies, independent audit firms, valuation and rating institutions, outsourcing institutions, principles of corporate governance for banks, audit committee and internal systems within the banks, accounting and information systems, capital adequacy and own funds, and liquidity are also important for the Turkish banking system.

Under the Regulation on Banks' Own Funds, published in the Official Gazette No. 26333 on November 1, 2006, innovative capital instruments were recognized and characteristics of these instruments were set. Pursuant to an amendment to this regulation, published on Official Gazette in March 10, 2011, No. 27870, certain of these characteristics were revised depending on the type of instrument. The regulation was wholly replaced by a new regulation that is in compliance with Basel III standards as of January 1, 2014.

The Regulation on Banks' Corporate Governance Principles is a regulation which came into force as of November 1, 2006, which revised the corporate governance principles of banks according to principles recommended by the BCBS. An amendment to this regulation was published in the Official Gazette dated June 06, 2011, No. 27959 and became effective in January 1, 2012, setting forth the framework for compensation policies of banks for their employees.

The Regulation on Outsourcing Activities Obtained by Banks and Authorization of Institutions to Provide the Outsourcing Activities was published in the Official Gazette No. 26333 on November 1, 2006 was replaced with the Regulation on Outsourcing by Banks published in the Official Gazette on November 5, 2011, No. 28106. With this new regulation, instead of requiring the BRSA authorization for both banks and the provider of the outsourced service/activity, a bank that has purchased an outsourced service that it will provide to customers is simply required to inform the BRSA about the outsourced activities. Moreover, the definition of outsourcing activities and exceptions/limitations to such activities has been re-defined in order to achieve greater compliance with international standards.

The Act on Bank Cards and Credit Cards No. 5464 was published in the Official Gazette No. 26095 dated March 1, 2006. The Act was prepared in accordance with the European Union Directives of the European Parliament and the Council of the European Union, “Core Principles of Payment Systems” and “Know Your Customer” reports published by the BCBS, “40 Recommendations on Money Laundering” principles published by the Financial Action Task Force on Money Laundering (“FATF”) and opinions of related parties were used in preparing this Act. The law regulates credit card issuers and provides protections for cardholders.

The Regulation on Bank Cards and Credit Cards was published in the Official Gazette No. 26458 on March 10, 2007. With this regulation, the procedures and principles regarding the issuance, use, clearing and settlement of bank cards and credit cards and licensing and operation of card system organizations and card issuing organizations are determined. In addition, the rules concerning the legal form and general transaction terms of bank card and credit card contracts, operating principles of the institutions in card payments systems, obligations of issuers, card holders and member companies are set forth. An amendment to this regulation was published in the Official Gazette dated December 17, 2010 (No. 27788), and such amendment defined minimum payment amounts with reference to a ratio between 25% and 40% of the debt within a certain period and the ratio for a particular credit card debt associated with the holder’s card limit. Furthermore, the amendment established that there would not be any increase in credit card limits and draw-cash facilities for credit cards whose period debt has been paid only up to 50% three times in one calendar year until the period debt is fully paid. Regulation Amending the Regulation on Bank Cards and Credit Cards No: 28868 was published on December 31, 2013 introducing an installment limitation for cash withdrawals and goods and service purchases by credit cards and eliminating the option of installment for certain types of products and services.

An IT audit team was formed as a subdivision of “Department of Information Management” in 2006 after the reorganization of the BRSA. The subdivision then became a separate department, the “Department of Information Systems Compliance,” in 2014. Department of Information Systems Compliance is responsible of overseeing banks, independent auditors and auditing firms from an IT perspective.

According to the regulation named “Auditing Bank’s Information Systems by Independent Auditing Firms”, each bank’s internal controls over banking processes must be audited once a year and its controls over IT processes must be audited once every two years by an authorized independent auditor. Consolidated partnerships of banks were also included in the IT audit scope in 2007 pursuant to the “Auditing Bank’s Information System by Independent Auditing Firms” regulation. These audits are based on the “Communiqué on Principles to be Considered in Information Systems Management in Banks”, which was published in the Official Gazette on September 14, 2007. In addition to the Communiqué, the principles defined by the COBIT framework are also utilized in IT audits performed by authorized independent auditors.

The Department of Information Systems Compliance evaluates and takes required actions according to the independent IT Audit reports. These reports are prepared by the independent auditors following IT audits. Banks propose corrective actions for each of these findings to mitigate the risks caused by these findings. An online monitoring system (“BADES”) is used for monitoring the activities of independent audit firms and tracking the audit findings revealed by the auditors as well as the semiannual reports filed by banks comprising the corrective actions regarding these findings.

Regulations regarding “IT audits performed by independent auditors” were updated in 2010 by the IT Audit Subdivision at Department of the Information Management. On July 30, 2010, the BRSA issued the “Circular of Management Representation”, which became effective as of 2011, requiring banks’ board of directors to submit a written representation to the independent auditor regarding effectiveness, adequacy and compliance of the bank’s internal controls.

The BRSA started its own planned IT audit activities in 2009 by using approved guidelines with the following predefined types of audit:

1. On-site examination in accordance with the “On-Site Examination Components Guideline” and “Onsite Examination Manuals”, which is based on the selected COBIT control objectives and COBIT IT Assurance Guide;

2. Pre-examination in accordance with the “Pre-Examination Guideline”, which includes selected COBIT control objectives;
3. Assessment of IT Complexity and Dependence based on URSIT Ratings (Component/Composite); and
4. System-based examinations (in accordance with the System-Based Examination Guideline).

The BRSA carried out IT audits of 8 banks in 2010, 1 bank and 1 factoring firm in 2011, 12 banks in 2012, 8 banks in 2013, 2 auditing firms and 9 banks in 2014.

As an additional security precaution to prevent potential data breaches, penetration tests are conducted at each bank in accordance with the circular issued by the BRSA on July 24, 2012. According to the circular, these tests have to be performed by independent security firms and the results of the tests as well as the corrective actions taken by banks have to be reported to the BRSA by using BADES web application. The BRSA supervises this process and tracks the corrective actions since 2013.

“Communiqué on Principles to be Considered in Information Systems Management and Audit in e-Money and Payment Institutions” was published on the Official Gazette on June 27, 2014. The Communiqué defines principles to be adopted in IT management of e-money and payment institutions. It also includes the rules to be followed in an IT audit, which comprises the examination of controls over IT processes by an authorized independent auditor.

In 2010, 6 regulations and 2 communiqués were amended. The amendments addressed the establishment and operations of banks, loan transactions, corporate governance, liquidity adequacy and bank and credit cards.

On September 30, 2010, the BRSA adopted Board Resolution No. 3875, which regulates the issuance of bills and bonds by banks. The Resolution incorporates a dynamic mix of equity, saving deposit, asset size and capital adequacy ratio in order to limit the amount of bonds to be issued by the banks. On December 16, 2010, the BRSA adopted Board Resolution No. 3980, effective as of January 1, 2011, which limits consumer loans mortgaged by residential real estate to 75% of the value of the real estate subject to the mortgage.

Within the scope of the Law Making Amendments to the Laws on Re-structuring of some Receivables and Social Insurance and General Health Insurance Law and Some Other Laws and Decree Laws, certain articles of the Banking Law particularly regarding relocation of BRSA Headquarter to Istanbul and establishment of a “Risk Center” within the Bank’s Association of Turkey were amended. Acquisition of liability insurance coverage for valuation and rating and outsourcing companies has been made mandatory only when demanded by banks or deemed necessary by the BRSA, whereas it is still compulsory for independent audit firms.

Pursuant to principle 5 of the “Core Principles for Effective Banking Supervision” published by the BCBS, an amendment was made to the Article 8 of the Regulation on Operations of Banks Subject to Permission and Indirect Shareholding published in the Official Gazette dated February 4, 2011 and No. 27836. With the amendment Banks may establish or participate in domestic partnerships with other banks, with the BRSA’s approval.

With the Regulation on Measurement and Evaluation of Interest Rate Risk in the Banking Book under the Standard Shock Method published in the Official Gazette dated August 23, 2011 and No. 28034, the principles and procedures were set for interest rate risk arising from on-balance and off-balance banking book accounts.

The implementation process of “International Convergence of Capital Measurement and Capital Standards (Basel II) was initiated on July 1, 2012 in Turkish banking system following the one year parallel implementation period to facilitate the transition. Accordingly, the following regulations and communiqués were published in the Official Gazette dated June 28, 2012, No. 28337 replacing the relevant previous regulations:

- Regulation on Measurement and Evaluation of Capital Adequacy of Banks,
- Regulation on the Internal Systems of Banks,
- Communiqué on the Financial Statements, Explanations and Footnotes to be announced by Banks,
- Communiqué on Credit Risk Mitigation Techniques,

- Communiqué on Structural Position,
- Communiqué on Calculation of Risk Weighted Asset Amounts for Securitization Exposures
- Communiqué on Use and Assessment of Risk Models to Calculate Capital Requirements for Market Risk
- Communiqué on Calculation of Capital Requirement for Market Risk Stemming from Options
- Communiqué on Structural Position

In 2013, one new law, four laws amending the Banking Law, five new regulations and 2 new communiqués were published; fourteen regulations and three communiqués were amended and one circular was issued. The most important regulations and amendments are listed below.

- Regulation on Capital Conservation and Counter-cyclical Capital Buffers, published in the Official Gazette No. 28812, on November 5, 2013, introduces additional capital buffers - a “mandatory capital conservation buffer” of 2.5% and a “discretionary counter-cyclical buffer”, which would allow national regulators to require up to another 2.5% of capital during periods of high credit growth. Buffer requirements will be put into effect following the same time-lines of European Union and Basel Committee for this area. Regulation on Own Funds of Banks, published in the Official Gazette No. 28756, on September 5, 2013, replaces the previous regulation with the aim to fully incorporate amendments and new rules introduced with Basel III accord regarding own funds. Regulation on Calculation of Leverage Ratio, published in the Official Gazette No. 28812, on November 5, 2013, requires banks to calculate and report leverage ratio to help restrict cyclical movements as complementary to risk-sensitive capital calculation in line with BCBS standards and EU legislation. Regulation Amending the Regulation on Measurement and Evaluation of Capital Adequacy of Banks, the risk weights applied to credit card installments has been increased by 25 basis points for 1 to 6 months, and by 50 basis points for other maturities. Accordingly, risk weight has been raised to 100% for credit card installments of 1 to 6 months, 200% for 6 to 12 months and 250% for credit card installments of more than 12 months.

The Act on Financial Leasing, Factoring and Financing Companies No. 6361 was published in the Official Gazette No. 28496 dated December 13, 2012. The Act No. 6361 repeals the Financial Leasing Law, dated June 10, 1985, and numbered 3226, and the By-Law Regarding Money Lending Activities, dated September 30, 1983, and numbered 90, with its appendices and amendments. The objective of this law is to regulate the establishment and operating principles of financial leasing, factoring and financing companies operating as financial institutions as well as the principles and procedures relating to financial leasing, factoring and financing contracts. By being defined as “financial institutions” by Act No. 6361, the aforementioned companies form an important part of the financial system; a legal basis for the establishment and operations of the companies is set up and an effective supervision and auditing system is introduced. Regulation on Establishment and Operation Principles of Financial Leasing, Factoring and Financing Companies No: 28627 was published on April 24, 2013. This complementary regulation sets out the principles and procedures applicable to establishment of financial leasing, factoring and financing companies, issuance of operation permits for them, opening of domestic and overseas branches by these companies, share acquisitions, transfers, merger, disintegration and liquidation, their managers, shareholders’ equity and transaction limits, internal systems, provisions, and independent audit, as required by the Law.

In 2014, four new regulations and four new communiques were published, and fourteen regulations and ten communiques were amended. The most important points covered by those regulations are listed below.

With two communiques, published in the Official Gazette No. 29111 on September 6, 2014, banks have been allowed to apply the internal ratings based approaches for credit risk and the advanced measurement approach for operational risk beginning January 1, 2015.

With regard to Pillar II requirements, the procedures for internal capital adequacy assessment process are determined and, starting from 2014, Best Practice Guidelines are published and internationally accepted principles and procedures are gathered under a single roof in order for banks to operate effectively and thus manage their risks

efficiently. Those guidelines on different risk areas give banks the required flexibility to make arrangements and processes comprehensive and proportionate to the nature, scale and complexity of the risks in their activities. The list of best practice guidelines is as follows.

- Guideline on Concentration Risk Management
- Guideline on Liquidity Risk
- Guideline on Country Risk
- Guideline on Market Risk Management
- Guideline on Operational Risk Management
- Guideline on Counterparty Credit Risk Management
- Guideline on Interest Rate Risk Management
- Guideline on Stress Testing to be used for Banks' Capital and Liquidity Planning
- Guideline on Credit Management
- Guideline on ICAAP Reporting of Banks

The scope of the disclosures on regulatory capital and minimum capital requirements and the regulatory framework for securitization were aligned with Basel III rules with two amending communiques which were published in the Official Gazette No. 28983 on April 26, 2014 and No. 29093 on August 19, 2014, respectively.

In addition, Regulation on Calculation of Liquidity Coverage Ratio of Banks, published in the Official Gazette No. 28948 on March 21, 2014, requires banks to calculate and report their individual and consolidated liquidity coverage ratios to the BRSA as of January 2014. Since January 2015, they are obligated to ensure individual and consolidated liquidity coverage ratios are in compliance with Basel III requirements.

Furthermore, the regulatory framework for payment service providers, which includes payment institutions and e-money institutions were set out by two different regulations that are largely compliant with the Directive 2007/64/EC and Directive 2009/110/EC and published in the Official Gazette No. 29043 on June 27, 2014, according to the provisions of the Law on Payment and Security Settlement Systems, Payment Services and Electronic Money Institutions No. 6493.

Regulation on Bank Cards and Credit Cards was published in the Official Gazette No. 28999 on May 13, 2014. With the exception of credit cards given to corporations, an installment ban for purchasing goods and services such as gift cards, gift checks was put in force. In this regulation, credit cards given to corporations are subjected to only installment limitation.

Regulation on Procedures and Principles for Payments Received from Financial Consumer was published in the Official Gazette No. 29138 on October 3, 2014. In this regulation, services which are provided by banks to financial consumers are determined. The regulation, also, introduced fundamental principles for fee, commission, and charges that will be received from the consumers with regard to those services and procedures for receiving these payments.

CAPITAL MARKETS

For the last three decades Turkey has undertaken several capital market reforms. Such reforms were meant to: secure transparency, confidence and stability in the capital markets; contribute to the private sector's effective utilization of capital markets; bring market discipline to State Owned Enterprises (SOEs) and strengthen the process of their restructuring; facilitate local government financing in capital markets; develop new instruments, institutions and markets to reduce the costs of credit and funds allocation; deepen financial markets; contribute to the participation of the public at large in investment activity; and reach the standards of developed nations with respect to financial structure and practice.

In the first half of the 1980s, the Turkish securities markets underwent serious developments in terms of setting up both the legal and institutional framework suitable for sound capital movements. The Capital Market Law No. 2499 was enacted in 1981 to adapt Turkey's legal framework to certain more developed markets, and one year later, the regulatory body responsible for the supervision and regulation of the Turkish securities market, the Capital Markets Board (the "CMB"), was established. The CMB has been established for carrying out the tasks and exercising the

authorities granted with the Capital Market Law No. 2499 and the related legislation, to maintain secure, transparent, efficient, fair and competitive capital markets, and to protect rights and interests of investors. The Decree by Law No. 91 establishing the basic principles concerning the foundation and operations of securities exchanges launched in October 1983. Then in 1984, the Regulation concerning the foundation and operations of the securities exchanges was published in the Official Gazette. Following the adoption of related regulations launched in the subsequent period, the Istanbul Stock Exchange (the “ISE”) was officially established in December 1985 and started its operations on January 3, 1986. In 1989, the foreign exchange regime was amended to allow non-residents to invest in Turkish securities and allow residents of Turkey to invest in foreign securities.

Capital market legislation underwent several reviews and amendments to include current market developments in legal infrastructure. A complete reform of the entire legal framework on capital markets was carried out in order to improve the harmonization level of Turkish capital markets legislation with the EU acquis, to reflect current market needs, to strengthen the competitiveness in Turkish capital markets, to keep pace with current global developments and standards developed in the aftermath of the 2008 financial crisis, to facilitate market development and innovations without compromising investor confidence and market integrity.

The new Capital Markets Law No. 6362 (“CML”) came into force on December 30, 2012, when it was published in the Official Gazette numbered 28513 and superseded Capital Market Law No. 2499. It includes several new rules regarding capital market instruments and issuers, financial reporting, independent external auditing, credit rating and appraisal agencies, capital market activities, intermediary institutions, portfolio management companies, portfolio custodians, self-regulatory organizations, institutional investors, supervision and measures, capital market crimes and penalties.

Exchanges and Trading Platforms

The CML yielded very important amendments in the field of operations and structure of stock exchanges. Firstly, the law has changed the definition of “stock exchange”, which previously had to be established as a public entity according to Capital Market Law No. 2499 and regulated in the same manner as a corporation. In that regard, the ISE has been restructured and rebranded as “Borsa İstanbul AŞ.” (“Borsa İstanbul”) which is a joint stock company subject to private law. Secondly, the CML has ensured a more professional and competitive environment for Turkish stock exchanges with additional regulations in respect of market operators and tradable instruments. In 2014, shares of 13 companies whose prospectuses are approved for initial public offerings began being traded on Borsa İstanbul. These initial public offerings raised approximately U.S.\$314 million. By the end of 2014, 579 companies were registered with the CMB, out of which 422 were traded on Borsa İstanbul. There were 217 corporations traded on the National Market, 94 corporations on the Second National Market, 46 corporations on the Collective Products Market, 29 corporations on the Watch List Market, 14 corporations on the Free Trading Platform and 22 corporations on the Emerging Companies Market making a total number of 422. With respect to the securities issued by these corporations, the CML and secondary regulations have envisaged new proactive enforcement measures to combat market abuse in order to enhance investor protection and confidence.

Issuers

According to the Capital Market Law No. 2499, capital market instruments to be issued or offered to the public were required to be registered with the CMB. With the CML, the registration system has been replaced with a system of prospectus or issue document approval. According to the CML, when securities are offered to the public or admitted to trading on a regulated market, a prospectus must be prepared and approved by the CMB. The Communiqué on Prospectus and Issue Document (Serial: II-5.1) came into force on July 22, 2013. The regulation relates to the implementation of the CML in respect of drafting, approving and distributing a prospectus. With this Communiqué, regulations contained in Directive 2003/71/EC of the European Parliament and of the Council have been adopted in order to harmonize the CML, and in turn Turkish legislation, with EU legislation.

Collective Investment Schemes

The CML introduced a new structure where mutual funds can flourish and serve as a medium of collective investment that meets the demands of Turkish investors. Portfolio management companies (“PMCs”) are centered into the system as the only founder of the mutual funds. The overarching aim of the changes is to increase the

competition in the mutual fund sector which is anticipated to lead to an increase in the performance of the mutual funds. PMCs that are not affiliated with any banking conglomerates have previously lacked the distribution channel to market their products. The CML will open up the way to liberate the distribution channels so that PMCs with good performances both in the mutual fund sector and other alternative investments could find their way to investors. Also, the CML regulates new types of funds such as venture capital investment funds and real estate investment funds. Another novelty brought by the CML is that portfolios of mutual funds are to be held in portfolio custodians in order to inject more credibility into the system. Portfolio custodians are assigned foremost with the task to monitor portfolio management activities, check if these activities are in line with the objectives of the funds and calculate the net asset value of the funds.

Variable capital investment companies which are a hybrid of mutual funds and investment companies are also introduced to the markets with the CML. This collective investment scheme will combine the advantages of investment companies and of the mutual funds. However, the fundamental changes brought by the CML will be put in effect after a transition period.

Mutual funds, including those established by non-bank financial institutions, have been differentiated based on portfolio structure. To encourage individuals to invest in the capital markets, withholding tax will not be applicable for the income derived from the disposal of participation certificates of both investment funds if 51% of their portfolio is comprised of shares trading on the Borsa Istanbul provided that the holding period is more than one year and investment funds if 75% of their portfolio is comprised of shares (except securities investment companies) trading on the Borsa Istanbul. Further, the withholding tax rate is set as 0% for both domestic and foreign legal entities. As of the end of 2014, the number of domestic mutual funds offered to the public equaled 482 and total net asset value of these mutual funds equaled TL 36.0 billion. Pension funds began to operate in October 2003. As of the end of 2014, the number of pension funds offered to the public equaled 246. The total net asset value of these funds equals TL 37.8 billion. According to the new Communiqué on Mutual Funds became effective in July 2014, an umbrella fund structure, which was required only for capital protected and capital guaranteed funds before, is obligatory for all mutual funds.

As of the end of 2014, 37 hedge funds registered with total net asset value of TL 922.0 million. As of the end of 2014, the number of exchange traded funds offered to the public equaled 15. The total net asset value of exchange traded funds equaled TL 192.7 million as of the end of 2014. Regulations related to capital guaranteed and capital protected funds became effective in 2007 and the related regulation was amended to introduce an umbrella fund structure for capital protected and capital guaranteed funds in 2009. As of the end of 2014 the number of capital protected funds offered to the public equaled 33 and capital guaranteed funds equaled 20. The total net asset value of capital protected funds equals TL 161.0 million and the total net asset value of guaranteed funds equals TL 22.0 million as of the end of 2014.

Securities investment companies, real estate investment companies and venture capital investment companies are other types of collective investment schemes subject to the CML. To improve the institutional investor base, the Government has exempted these investment companies from corporate tax. As of the end of 2014, the number of listed securities investment companies equaled 9, listed real estate investment companies equaled 31 and listed venture capital investment companies equaled 6. The total net asset value of securities investment companies equaled TL 282.0 million, the total net asset value of venture capital investment companies equaled TL 1.5 billion and the market value of real estate investment companies equaled TL 21.6 billion.

Market Intermediaries and Infrastructure

In June 1998, a communiqué establishing certain principles regarding capital and capital adequacy requirements of investment firms was published by the CMB and it has been revised according to developments in the sector. Moreover, the CMB made regulations pertaining to internal auditing systems and principles regarding public disclosure by intermediary institutions in order to strengthen financial and operational structure of investment firms. With respect to bringing secondary regulations in line with the CML, all such regulations will be subject to revision as well to ensure that they are fully in compliance with the CML.

The CML has regulated central counterparties, trade repositories, custody services, Investor Compensation Center and outsourcing of investment firms for the first time. The law also redefined investment services eschewing the

previous activity type-based classification and introduced the concept of ancillary services. In order to further explain those new concepts, several regulatory works have been concluded. In this regard, a new communiqué on investment services and ancillary services was published in July of 2013. The new communiqué classified intermediary institutions based on the investment services they provide, which have been defined in the CML. Further, a new communiqué on the principles of foundation and activities of investment firms was published in December 2013. The communiqué brought new provisions especially concerning code of conduct, customer classification and protection. With this communiqué, regulations contained in Directive 2004/39/EC of the European Parliament and of the Council have been adopted in order to harmonize the capital markets legislation and in turn Turkish legislation, with EU legislation.

Intermediation in leveraged transactions on foreign exchange, commodities, precious metals or other assets which are widely known as “forex” has been the responsibility of the CMB since August 31, 2011. Under the CML, forex is classified as a derivative instrument and in the new communiqué the principles are revised to comply with the principles for other derivative instruments.

The revised Regulation on Central Clearing was published in July of 2013 and a new Regulation on Central Counter Party was published in August 2013. With the publication of Regulation on Investor Compensation Center in June of 2013, the Center was officially established. Within the framework of Capital Market Law No. 2499 and related regulations, the CRA was empowered to represent and manage the Investors Protection Fund (“IPF”). However, article 84 of the CML replaced the IPF with a new legal entity named Investment Compensation Center (“ICC”). The scope of the compensation consists of claims arising from failure to fulfill cash payment or capital market instrument delivery obligations with regard to assets belonging to investors kept or managed by investment firms in the name of investor in relation to investment services and activities or ancillary services.

Central Registration Agency (CRA) has been authorized to operate as a Trade Repository as of April 3, 2015 and is the only Trade Repository officially authorized to operate in Turkey. While being authorized as a Trade Repository, CRA is not actively collecting transaction data, since related regulations on data collection are not in force yet.

Credit Rating Agencies

Regarding rating agencies, a revised communiqué complying with IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (2003) was published by the CMB in July 2007. This communiqué includes provisions for the rating activities including credit rating and the rating of compliance with corporate governance principles. Currently, four internationally recognized rating agencies (S&P, Moody’s and Fitch for credit rating; ISS Corporate Services Inc. for rating of compliance with corporate governance principles) and 6 national rating agencies are authorized by the CMB.

Dematerialization of Capital Market Instruments

Central Registration Agency (the “CRA”) was established as a joint-stock corporation with the Regulation on the Principles for Establishment, Operation and Supervision of the Central Registration Agency, which was promulgated on June 21, 2001, by the decision of the Council of Ministers. The CML has several important amendments on the activities of the CRA. According to Article 81/1 of the CML, the CRA is a corporation possessing the status of private law legal entity established in order to realize the operations related to the dematerialization of capital market instruments, to monitor the records of these dematerialized instruments and the rights associated with them in the electronic environment with respect to members and right holders, and to provide their central custody.

The dematerialized system became operational for equities traded on the Borsa Istanbul in 2005 for mutual fund certificates and corporate bonds in 2006, for commercial papers in 2007 and for bank bills in 2009. As of June 30, 2012, holdings of the retail clients on government bonds and bills have been also dematerialized by the CRA. As of the end of 2014, the market value of those government bonds and bills held by CRA was U.S.\$90 billion.

Licensing of Individual Market Professionals

The regulation concerning the principles for the licensing of professionals who engage in capital markets activities has been effective since August 2001 and licensing exams began in September 2002. As of June 16, 2011, the Capital Markets Licensing, Registration and Training Corporation (the “SPL”) was established. The Communiqué on Licensing (Serial: VII-128.7) came into force on August 14, 2014, updating types of licenses and exam topics. The examinations held in 2010-2012 were organized collectively by the SPL, the CMB and the General Directorate of Innovation and Education Technologies of the Ministry of National Education. Since 2013, the examinations were organized by the SPL, the CMB and the Anadolu University. As of the end of 2014, total number of licenses that have been granted reached 60,051 , as described in further detail:

Table 42

Types Of Licenses	Licenses Issued 2002-2014
Capital Market Activities Level 2	18,406
Capital Market Activities Level 1	12,311
Capital Market Activities Level 3	11,060
Derivative Instruments	7,467
Real Estate Appraiser	5,082
Credit Rating	2,702
Corporate Governance Rating	2,464
Residential Real Estate Appraiser	559
TOTAL	60,051

Source: CMB

Financial Reporting and Auditing Standards

Adoption of international standards is seen as a crucial issue for both enhancing integrity in the capital markets and attracting domestic and foreign investors. In line with this objective, important steps have been taken in the areas of accounting and auditing standards. Accordingly, Turkish Accounting Standards, as the official translation of International Financial Reporting Standards issued by the International Accounting Standards Board, that are disclosed by Turkish Public Oversight Accounting and Auditing Standards Authority, have been adopted for financial reporting of listed companies, intermediary institutions and portfolio management companies. Similarly, the communiqué regarding auditing standards for securities market companies and institutions is in line with International Standards on Auditing issued by the International Federation of Accountants (“IFAC”). There are 96 authorized audit firms operating in Turkish capital markets and about half of them have an international membership.

Corporate Governance

In July 2003, the CMB issued Corporate Governance Principles, which used Organisation for Economic Cooperation and Development (“OECD”) principles as a benchmark and were updated in 2005 in accordance with the OECD revisions. The CMB, as the National Coordination Unit in the OECD Corporate Governance Steering Committee, closely follows OECD studies, coordinates institutions and participates in the meetings of National Coordination Units. Implementation of these principles was based on the generally accepted “comply or explain” approach. Moreover, a corporate governance index was established by Borsa Istanbul at the end of August 2007. The opening value for the index was 48,082.17 and as of December 31, 2014, the value of the index has reached 72,699.84. Currently, the Borsa Istanbul index is composed of 49 companies that have an average corporate governance rating of 9,02 out of 10.

Additionally, corporate governance principles are regulated by Article 17 of CML. In line with the authority given by CML, the Communiqué on Corporate Governance (Serial: II-17.1) came into force on January 3, 2014. With this Communiqué, principles of corporate governance to be applied by corporations are determined in detail. “Corporate Governance Principles” in which the “comply or explain” approach was valid since their publication in 2003, have

been adopted as a legal requirement in the new Law. Provisions such as independent board members, shareholders' rights and high standards of disclosure are compulsory with the purpose of enhancing corporate governance for listed companies. Moreover, the CMB is explicitly granted the authority to make regulations and require listed companies to comply (partially or fully) with such rules. The concept of "significant transactions" was introduced and the CMB was authorized to make rules regarding these transactions, which include mergers and divisions, sale of all or a significant portion of assets, a significant change in the field of activity, introduction of privileges or changes in the scope and content of existing privileges and delisting. In case of significant transactions minority shareholders who vote against the transaction in the general assembly were granted a sell-out right. New quorums were defined for general assembly meetings of publicly held corporations depending on the circumstances under which meetings are held and agenda items. Also, online general assembly meetings were enabled.

Derivatives Market

In 2005, the Turkish Derivatives Exchange began operations in Izmir as the first derivatives exchange in Turkey. The position transfer process became effective at the end of 2009. Contracts traded on this exchange consisted of commodity futures (cotton, wheat), interest rate futures, gold futures, foreign exchange futures, index futures and energy futures. The CML has brought a structural change opportunity for Turkish Derivatives Exchange. According to Article 138 of the CML, organized markets are designed to be operated under a single structure and it became possible for Turkish Derivatives Exchange to merge with Borsa Istanbul.

After that, a new derivatives market has been established within Borsa Istanbul, the Futures and Options Market ("VIOP"), for both futures and options as well as other derivative contracts and according to the CML, the Turkish Derivatives Exchange was merged in Borsa Istanbul. Accordingly the contracts on the Turkish Derivatives Exchange were closed to trading and started to trade in VIOP by August 5, 2013.

Market Statistics

The following table shows market activity in the Turkish capital markets for the periods indicated:

Table 43

	2010	2011	2012	2013	2014
Outstanding Securities <i>(in millions of TL)</i>	439,476	472,677	512,948	526,972	567,668
Private	86,634	103,898	126,406	123,965	153,020
Public	352,841	368,728	386,542	403,007	414,648
Traded value on the Borsa Istanbul Markets <i>(in millions of TL)</i>					
Stock Market	635,664	695,328	621,979	816,858	870,962
Bonds and Bills Market	3,458,517	4,122,292	6,828,000	6,898,271	7,645,000
Off-exchange bonds & bills transactions	710,433	915,664	1,102,459	1,153,951	1,048,346
Stock Market Capitalization <i>(in millions of TL)</i>	472,553	381,152	550,051	503,668	624,369
BIST National 100 Index <i>(on TL basis)</i>	66,004	51,267	78,208	67,801	85,721
Number of Companies Traded	338	373	395	421	422

Sources: Capital Markets Board, Borsa Istanbul, Undersecretariat of Treasury

According to the former Capital Market Law No. 2499, capital market instruments to be issued or offered to the public were registered with the CMB. With the CML, the registration system has been replaced with a system of prospectus or issue document approval. Therefore, data for securities registered with the CMB for the period 2010-2012 presented in the following table and data for securities sold based on approved prospectuses/issue document for the period 2013-2014 are presented in the immediately following table thereafter separately.

Table 44

	2010	2011	2012
Securities Registered (<i>in millions of TL</i>)	42,928	106,067	130,441

Source: Capital Markets Board

Table 45

Securities Sold (<i>in millions of TL</i>)	Share	Asset Backed Securities	Asset Covered Securities	Corporate Bonds	Lease Certificates	Warrants/ Certificates	Total
2013	6,009	516,6	710,9	78,155	734,7	71,5	86,198
2014	3,347	451,6	361,9	117,680	4,836	68,8	126,745

Source: Capital Markets Board

In 2014, a total of U.S.\$1.1 billion was raised.

The corporate bond market began to accelerate after 2010. The total amount of market value of outstanding corporate bonds traded rose from TL 2.8 billion at the end of 2010 to TL 13.9 billion and 28.1 billion at the end of 2011 and 2012, respectively. This figure rose to TL 45.3 billion as of the end of 2014.

The work carried out by the CMB and other related institutions in order to start the trading of warrants on the Borsa Istanbul Stock Market was finalized and the Communiqué on Principles Regarding Registration with the Capital Markets Board and Sale of Covered Warrants was promulgated. Subsequently, covered warrants began to be issued and have been traded on Borsa Istanbul Collective Products Market since August 13, 2010.

In 2010, the offering market for Qualified Investors, the Interbank Repo-Reverse Repo Market, and the Repo Market for Specified Securities were each established within Borsa Istanbul Bonds & Bills Market.

As of December 31, 2014, there are 93 investment firms licensed to trade on stock markets, and 43 banks and 78 investment firms licensed to trade on debt securities markets at Borsa Istanbul. In addition, there are 81 intermediary institutions (banks, investment firms) licensed to trade on VIOP. Also, there are 23 firms licensed to trade on precious metals market.

In August 2009 the Borsa Istanbul Emerging Companies Market Regulation was published and in 2011 shares of small and medium sized enterprises began to trade on the ECM market. Additionally, within the framework of the restructuring of the Borsa Istanbul Stock Market segments, the Collective Products Market was established as a listed market where the shares of investment companies, real estate investment companies, and venture capital investment companies as well as the participation certificates of exchange traded funds, warrants, and other structured products are traded.

Borsa Istanbul was recognized as a “Designated Offshore Securities Market” by the U.S. Securities and Exchange Commission in 1993 and was designated as an “appropriate foreign investment market for private and institutional Japanese investors” by the Japan Securities Dealers Association in 1995. Likewise, Borsa Istanbul has been approved by the Austrian Ministry of Finance as a regulated market in accordance with the regulations of the Austrian Investment Fund Act in 2000.

Clearing and Settlement, Central Counterparty

The Istanbul Settlement and Custody Bank Inc., namely Takasbank, is “the Clearing and Settlement Center” for the markets of Borsa Istanbul, the custodian for pension funds and “the National Numbering Agency of Turkey”. Also, Takasbank is a specialized bank established under the Turkish Banking Law and incorporated as a non-deposit taking investment bank dedicated to securities services in Turkey. Having banking capacity, Takasbank provides its members with a money market facility and banking services including cash credits, securities lending and cross-border settlement and custody services via SWIFT and correspondent accounts. Takasbank was authorized as a FOREX Trade Repository Institution by the CMB in 2011.

With the new Regulation on Central Counterparty, Takasbank also acts as the central counterparty for the VIOP of Borsa Istanbul and Takasbank Securities Lending and Borrowing Market. In 2013, Takasbank was authorized as the Pre-Local Operating Unit (“Pre-LOU”) authorized to assign Legal Entity Identifier (“LEI”) Code with CMB sponsorship by the Financial Stability Board (“FSB”).

In 1995, Takasbank was granted the title of “Eligible Foreign Custodian” by the SEC and was designated as an “Approved Depository” by the Securities and Futures Authority of the United Kingdom. Also, the Japan Securities Clearing Corporations and Japan Securities Depository Center recognized Takasbank as an eligible depository conforming to the standards predetermined by these institutions. With the completion of dematerialization, beginning on November 28, 2005, Takasbank handed over its central depository function for securities to the CRA, in which Takasbank is both a main shareholder with a 65% interest and a systems developer.

International Relations

Increasing cross border movement of capital in a globalized world has increased the importance of international relations. In this context, benefiting from international practices and experiences, enhancing cooperation with other regulatory authorities and taking an active role in international organizations constitutes an important part of the CMB’s activities.

The CMB has attached great significance to multilateral and bilateral international relations. Thus, the CMB acts in order to improve its relations with the international organizations of which it is a member, foreign capital market authorities and other foreign organizations which carry out capital market related activities (OECD, World Trade Organization, World Bank, IMF, EBRD, IDB etc.). Additionally, as a member of IOSCO since 1988, the CMB has actively participated in the work of IOSCO.

With respect to the integration of the Turkish capital markets with the EU and the alignment of Turkish legislation with the EU acquis, the CMB has been working in close contact with the European Commission and the Delegation of the European Union to Turkey as well as other EU institutions and with the CML and following secondary legislation the alignment of Turkish capital market legislation with the EU acquis has been substantially enhanced.

Through the above referenced activities, the CMB aims to enhance the infrastructure of the capital markets to provide investors with new financial services in a fair and transparent manner and to attract foreign capital to Turkey.

Furthermore, the CMB has signed various Memoranda of Understanding (“MoU”) and entered into collaborative arrangements with foreign regulatory and enforcement authorities and continues its efforts to sign MoUs concerning the cooperation and sharing of information with foreign authorities. The CMB which is one of the first signatories of the IOSCO MoU, signed 33 MoUs with foreign financial regulatory authorities by the end of 2014 and ongoing initiatives to sign MoUs concerning cooperation with regulatory and supervisory authorities are in progress. Moreover, the CMB has signed bilateral MoUs with 18 countries concerning the cooperation and the exchange of information for the supervision of Alternative Investment Fund Managers.

PUBLIC FINANCE

GENERAL

In the course of EU accession negotiations, Turkey has reformed its public financial management in accordance with EU practices and improved budget coverage, formulation, execution, accounting, audit and procurement. The main change was the introduction of the Public Financial Management and Control Law (PFMC Law), adopted by the Turkish Parliament (Turkish Grand National Assembly or “TGNA”) in December 2003 (Law No. 5018, as amended in 2005, Law No. 5436). The enactment of the PFMC Law was the defining event that provided for a new legal framework for modern public financial management and accountability, which continues to develop in Turkey today. Since the enactment of the PFMC Law, such key concepts of a modern public financial management system as managerial responsibility models, effective and efficient use of resources, strategic planning, performance-based budgeting, a multi-year budgeting framework, accountability, fiscal transparency, modern internal audit/controls and external audit practices have been put into practice. Several other reform laws have been enacted, including the Special Provincial Administration Law, Metropolitan Municipalities Law and The Municipalities Law.

The public sector in Turkey includes central government agencies, social security institutions (“SSIs”), local governments (provincial governments, municipalities and villages), financial and non-financial state owned enterprises (“SOEs”) and extra-budgetary funds (EBFs). The PFMC Law covers central government agencies, social security institutions and local governments which are referred to as the “general government.” All general government agencies prepare their own budgets. The central government consists of three types of agencies: (1) general budget agencies which are government entities, (2) special budget agencies which are public administrations affiliated or related to a ministry which perform a specific public service, to which revenues are allocated, and which are authorized to spend from such revenues, with the establishment and operation principles arranged through special laws and (3) regulatory and supervisory agencies which are established in the form of boards, agencies or supreme boards (agencies which are given a high degree of autonomy) by special laws.

The PFMC Law has been fully implemented and covers public financial management and control at all levels of government. Yet, there are some exceptions for the regulatory and supervisory agencies. The PFMC Law requires in many instances enacting of secondary legislation for its implementation, all of which has been completed.

The budgeting process, accounting system, internal and external audits have each been amended to be in line with the PFMC Law.

Budgeting

The new system has modernized the budgeting process according to international standards. The central budget remains the pivotal point of public finance and is prepared according to a schedule commonly used in OECD countries. There is a rolling multi-year budget framework covering the budget year and the following two years. The annual budget law is accompanied by the appropriation indicators for the following two years. The fiscal year is the calendar year.

As the initial step of the Central Government Budget preparation, a medium-term program is prepared by the Ministry of Development of Turkey (“MoD”) covering macro policies, principles, targets and main economic indicators in the context of development and strategic plans and the requirements of general economic conditions. The medium-term program is then adopted by the Council of Ministers. A medium-term fiscal plan, which is consistent with the medium-term program, is prepared by the Ministry of Finance (MoF) and includes total revenue and total expenditure projections, budgetary targets and proposed budget appropriation ceilings for public administrations for the following three years and is endorsed by the High Planning Council. These documents set the framework for the budget discussions and negotiations with relevant ministries (the MoF and the MoD) and spending agencies, before political reconciliation in the Cabinet and the Parliament.

The annual budget process of administrations begins in June, following a general announcement made by the MoF. Budget revenue and expenditure proposals are prepared by the administrations and reviewed by the MoF. The general budget revenue proposal is prepared by the MoF and the revenue proposals of other budgets are prepared by the relevant administrations. The investment proposals of public administrations are evaluated by the MoD. Central

Government Budget Draft Law together with supporting information is prepared by the MoF and submitted to the Parliament in mid-October. Following debate, the Annual Budget Law is approved by the Parliament and promulgated by the President in December.

To align the accounts with the Government Financial Statistics (“GFS”) standards, the budget codification system is being overhauled. Each spending item is identified in the analytical budget classification system consisting of institutional, functional, financial and economic terms, and budgets and budget reports are compiled according to this codification system. The new codification system has been gradually applied to all general government entities since 2006.

Each of the SOEs adopts an annual financial program, which is approved by the Council of Ministers. Although separate budgets for the SOEs do not exist in the Central Government Budget, there are sections in the budget of the Treasury for capital transfers to and duty losses of the SOEs.

The preparation and implementation of the budgets of SSIs and local administrations and their other financial transactions are subject to the provisions of the relevant laws without prejudice to the provisions of the PFMC Law. Social security institutions and local administrations prepare their own budgets that are approved by their own boards of directors/councils.

Accounting

Public revenues and expenditures are indicated on the accounts of the fiscal year of their accrual.

Establishing a uniform accounting system for general government and supervision of the system are the responsibilities of the Ministry of Finance’s General Directorate of Public Accounts. The accounting services are responsible for collecting revenue, ordering payments and recording the financial transactions of the line ministries and agencies (Article 61 of the PFMC Law). Accounting services of the public administrations within the scope of the general budget are performed by the accounting offices affiliated with the MoF. Moreover, there are three accounting offices affiliated with the Undersecretariat of the Treasury, namely, Accounting Office for External Payments, Accounting Office for Internal Payments and Accounting Office for State Debts. The MoF is responsible for compiling, consolidating and disseminating accounting data and financial statements for the central government on a monthly basis as defined in the PFMC Law.

The accounting and reporting standards for general government are set by the State Accounting Standards Board, which is established within the MoF. The MoF sets rules for the preparation of the final accounts and supervises the compilation of administration’s final accounts prepared by the strategy units of each administration within the framework of final account legislation.

The draft of the Final Accounts Law is prepared by the MoF and submitted to the Parliament by the Council of Ministers within six months of the end of the fiscal year and a copy is sent to the Turkish Court of Accounts (the “TCA”). The TCA submits a General Conformity Statement to the Parliament no later than 75 days thereafter. The draft of the Final Accounts Law is deliberated by the commissions of Parliament together with the Central Government Budget Law.

Currently, the main fiscal policy indicators are the overall balance and primary balance of the Central Government Budget. In order to submit fiscal notifications to the European Commission, huge efforts have been made to prepare accounts in accordance with ESA 95 standards. The goal is to produce accounts in accordance with ESA 95.

Internal Audit

The PFMC Law requires each public administration to assign internal auditors. Internal auditors within the line ministries and agencies will be made responsible for system, performance, financial, compliance and IT audits. The internal auditors are required to report to the head of the agency. For 2014, 2,070 internal auditor positions were reserved; currently 928 have been appointed.

External Audit

External audit is regulated by the Law on the TCA. Article 68 of the PFMC Law and amendments to the TCA, which specify that the TCA may audit all general government organizations (central government agencies, local governments and SSIs), public enterprises and their subsidiaries, other public administrations and companies in which the Republic has more than a 50% interest. TCA's independence is secured. TCA prepares its own budget and presents it to Parliament directly. It decides on its own audit program. The president and the members of the court are elected by the Parliament. The tenure of members and auditors continues until the age of 65. The president, members and auditors cannot be appointed to another position without their consent. Members may be asked to retire or may resign only due to criminal conviction or for medical reasons. The TCA is responsible for the financial, compliance and performance audits of all general governmental agencies. At present, the TCA predominantly carries out compliance audits, the results of which are held through a judicial procedure in TCA. The TCA also submits a report to the Parliament on the general conformity of fiscal transactions of the central government through a financial audit. Both types of reports are published and publicly available.

CENTRAL GOVERNMENT BUDGET

The economic program within the framework of the IMF Stand-By Arrangement was focused on debt reduction through high primary surplus targets during the program period which ended in May 2008. Following the program period, fiscal discipline has continued to serve as an anchor for economic policy and fiscal policy has remained prudent. However, fiscal balances deteriorated in 2009 as a result of the decrease in tax revenues and the cost of the fiscal stimulus package which was promptly adopted to mitigate the effects of the global financial crisis on the economy. Starting from the last quarter of 2009, high increases in tax revenues through high GDP growth performance and prudent fiscal policy improved the central government budget deficit which was below its pre-crisis level in 2011. The central government budget deficit was 1.2% of GDP in 2013 compared to 5.5% of GDP in 2009.

The Medium Term Program 2010-2012 (the "MTP 2010-2012") announced in October 2009 introduced the exit strategy to gradually restore fiscal balances. In the context of the MTP 2010-2012, it was envisaged to rescind the temporary measures which were adopted during the global financial crisis and to implement additional fiscal policies. Beyond restoring fees levied on consumer loans to pre-crisis level, increasing the fee and stamp taxes rate above the inflation rate and actualizing real estate revaluation rates, new measures such as the introduction of an annual operation fee on bank branches were adopted. As a result of these fiscal measures, along with the rapid economic recovery in 2010, central government budget revenues and expenditures reached TL 254.3 billion (23.1% of GDP) and TL 294.4 billion (26.8% of GDP), respectively. Rising tax revenues and commitment to fiscal discipline on the expenditure side improved the central government budget balance. As of December 31, 2010, the budget deficit was TL40.1 billion, representing 3.6% of GDP, and the primary surplus was TL 8.2 billion, representing 0.7% of GDP.

In 2011, the public financial balance improved significantly with respect to the 2008 – 2010 period, during which the global financial and economic crisis affected the economy. In 2011, the real GDP growth reached 8.5% while the growth target according to the Medium Term Program 2011-2013 was 4.5%. As a result of this rapid economic recovery and the restructuring of certain public receivables including taxes, interest and penalties, and social security premiums, the central government tax revenues increased to 19.6% of GDP (TL 253.8 billion) in 2011 compared to 19.2% of GDP (TL 210.6 billion) in 2010 and 18.1% of GDP (TL 172.4 billion) in 2009. During this period, increases in budget expenditures were limited and expenditures decreased to 24.2% of GDP (TL 272.4 billion) in 2011 from 26.8% of GDP in 2010. Improvement in the central government balance was achieved by containing expenditures which exhibited a limited increase at a rate of 6.8%, while the central government revenues increased by 16.4% in nominal terms with respect to 2010. The central government budget deficit was TL 17.8 billion in 2011 and thus the central government deficit to GDP ratio decreased to 1.4% from 3.6% in 2010.

In 2012, the central government budget revenues and expenditures reached TL 332.5 billion (23.5% of GDP) and TL 361.9 billion (25.5% of GDP), respectively. The budget deficit was TL 29.4 billion, representing 2.1% of GDP and primary surplus was TL 19 billion, representing 1.3% of GDP.

In 2013, the central government budget revenues and expenditures reached TL 389.7 billion (24.9% of GDP) and TL 408.2 billion (26.0% of GDP), respectively. The budget deficit was TL 18.5 billion, representing 1.2% of GDP and primary surplus was TL 31.4 billion, representing 2.0% of GDP.

The 2015-2017 Medium Term Program, announced in October 2014, set a central government budget deficit target to of 1.4% of GDP by the end of 2014, 1.1% of GDP by the end of 2015, 0.7% of GDP by the end of 2016 and 0.3% of GDP by the end of 2017. In the 2015-2017 Medium Term Program, the Government announced that GDP is expected to grow by 3.3% in 2014, 4.0% in 2015 and 5.0% in 2016 and 2017. The primary surplus to GDP ratio is expected to reach 0.5% for 2014, 1.1% for 2015, 1.3% for 2016 and 1.7% for 2017. The Current Account deficit to GDP ratio is expected to be 5.7% for 2014, 5.4% for 2015, 5.4% for 2016 and 5.2% for 2017. The Government also indicated that the unemployment rate is expected to decline to 9.1% by 2017.

The main objective of the 2015-2017 Medium Term Program is to strengthen macroeconomic and financial stability, which the Government aims to achieve by increasing growth performance, reducing Current Account deficit and meeting the inflation targets of the 2015-2017 Medium Term Program.

The sustainability of the fiscal policy, implemented by the 2015-2017 Medium Term Program, will depend on curbing the public sector borrowing requirement as well as primary expenditures. The public savings/investment gap will be reduced gradually by controlling current outlays and transfer payments. Along with controlling the pace of increase in spending, flexibility of public expenditures will be improved by taking into account the fiscal burden of new spending programs during the budget-setting process. Spending programs, particularly infrastructure investments, will be prioritized, bolstering economic growth by promoting regional development, education and research and development. Additionally, considering the highly sensitive nature of public finances to cyclical economic effects, policies will be implemented to increase the quality of public revenues, in order to strengthen the public finance sector. Policies financed by one-off revenues, which would lead to permanent increases in the level of expenditures in the medium and long term, will not be implemented.

Table 46

	2010	2011	2012	2013	2014*
	<i>(in millions of Turkish Liras)</i>				
CENTRAL GOVERNMENT BUDGET REVENUES	254,277	296,824	332,475	389,682	425,758
I. GENERAL BUDGET REVENUES	246,051	286,554	320,536	375,564	409,191
Tax Revenues	210,560	253,809	278,751	326,169	352,437
Direct Taxes	66,566	82,057	92,520	100,442	114,419
Indirect Taxes	143,995	171,752	186,231	225,728	238,018
Other	35,491	32,745	41,785	49,395	56,754
Non-Tax Revenues	31,150	29,147	38,049	38,194	45,315
Capital Revenues	3,376	2,530	2,054	10,105	9,548
Grants and Aids	966	1,068	1,652	1,096	1,891
II. REVENUES OF SPECIAL BUDGET AGENCIES	6,333	8,174	9,622	11,445	13,419
III. REVENUES OF REG. & SUPERVISORY INSTITUTIONS	1,893	2,095	2,318	2,673	3,148
CENTRAL GOVERNMENT BUDGET EXPENDITURES	294,359	314,607	361,887	408,225	448,424
PRIMARY EXPENDITURES	246,060	272,375	313,471	358,239	398,517
Personnel Expenditure	62,315	72,914	86,463	96,235	110,370
Social Security Contributions	11,063	12,850	14,728	16,306	18,926
Purchase of Goods and Services	29,185	32,797	32,894	36,386	40,691
Interest Payments	48,299	42,232	48,416	49,986	49,907
Domestic Interest Payments	42,148	35,064	40,702	38,910	38,818
Foreign Interest Payments	5,982	6,668	7,277	7,397	8,825
Discount and Short Term Transactions	168	499	437	3,436	1,603

Current Transfers	101,857	110,499	129,477	148,743	162,327
Duty Losses	3,297	4,739	3,912	4,075	3,836
Treasury Aids	60,323	59,353	70,184	79,238	83,528
Transfers to Non Profitable Institutions	1,084	1,391	926	1,786	2,552
Transfers to Households	1,599	2,156	2,891	3,543	3,777
Agricultural Subsidies	5,817	6,961	7,553	8,684	9,148
Other Transfers to Households	850	1,448	5,411	4,048	2,850
Social Transfers	1,610	2,255	2,922	5,876	7,735
Transfers to Abroad	969	1,153	1,296	1,624	1,556
Shares from Revenues	26,308	31,043	34,380	39,869	47,344
Capital Expenditure	26,010	30,905	34,365	43,767	48,001
Capital Transfers	6,773	6,739	6,006	7,666	7,683
Lending	8,857	5,671	9,537	9,135	10,518
CENTRAL GOVERNMENT BUDGET PRIMARY BALANCE	8,217	24,448	19,004	31,443	27,242
CENTRAL GOVERNMENT BUDGET BALANCE	-40,081	-17,783	-29,412	-18,543	-22,666
DEFERRED PAYMENTS	1,493	68	361	3,310	1,940
OTHER DEFERRED PAYMENTS	942	4,363	1,701	2,153	2,194
ADVANCES	-871	-1,543	-1,505	708	-1,432
CENTRAL GOVERNMENT BUDGET CASH BALANCE	-38,517	-14,895	-28,855	-12,372	-19,964
CENTRAL GOVERNMENT BUDGET FINANCING	38,517	14,895	28,855	12372	19,964
BORROWING (NET)	31,085	17,468	22,744	24,477	19,717
FOREIGN BORROWING (NET)	7,756	2,469	4,976	8,012	8,076
Receipts	18,436	13,990	16,948	16,692	20,645
Payments	-10,680	-11,522	-11,972	-8,680	-12,569
DOMESTIC BORROWING (NET)	23,329	14,999	17,769	16,465	11,642
-YTL Denominated T-Bills	-4,511	-9,525	3,684	-3,684	0
Receipts	17,543	725	3,684	0	0
Payments	-22,054	-10,250	0	-3,684	0
-YTL Denominated G-Bonds	39,021	27,212	17,824	20,149	11,642
Receipts	142,287	111,348	98,215	144,528	129,430
Payments	-103,266	-84,136	-80,391	-124,378	-117,788
-FX Denominated G-Bonds	-11,181	-2,688	-3,739	0	0
Receipts	2,807	0	0	0	0
Payments	-13,988	-2,688	-3,739	0	0
NET LENDING (-)	-1,765	-2,416	-1,923	-997	-1,317
Lending	51	305	153	63	147
Repayment (-)	1,816	2,720	2,076	1,060	1,464
PRIVATIZATION REVENUE	0	0	0	0	0
SDIF REVENUE SURPLUS	658	1,300	607	720	0
CURRENCY/DEPOSIT AND OTHER TRANSACTIONS	5,010	-6,289	3,581	-13,822	-1,071

Source: UT and MoF

* Provisional

TAXATION

The Government collects taxes on personal and corporate income, real estate, goods and services (including the value added tax), and foreign trade.

PERSONAL INCOME TAX

The personal income tax is levied on a scheduler basis and includes the following features:

- Earned income received from a single employer is subject to a progressive withholding tax at marginal rates rising from 15% to 35%. The withholding tax is final.
- Wage income from more than one employer is subject to declaration if the sum of all wage incomes (excluding wage income attributable to the first employer) is higher than the TL 22,000 threshold for the year 2010, the TL 23,000 threshold for the year 2011, the TL 25,000 threshold for the year 2012, the TL 26,000 threshold for the year 2013, and the TL 27,000 threshold for the year 2014.
- Capital income is taxed at marginal rates rising from 15% to 35% as of 2010, 2011, 2012, 2013 and 2014. There is a requirement to file an annual tax return for unearned income not subject to a final withholding tax.

The taxation of the gains derived from the sale and the retention of marketable securities and other capital market instruments, and the taxation of deposit interests, repo gains and the income that is derived from private finance institutions is regulated by Temporary Article 67, which was added to the Income Tax Law through Article 30 of the Law No.5281 (a law regarding the amendments to current laws and adaptation of tax laws to New Turkish Lira). These regulations will be applied during the period between January 1, 2006 and December 31, 2015. In particular:

- Interest income derived from government bonds issued prior to January 1, 2006 is subject to declaration if the total indexed amount of the gain derived from these government bonds is above the threshold level of TL 22,000 for 2010, the threshold level of TL 23,000 for 2011, the threshold level of TL 25,000 for 2012, the threshold level of TL 26,000 for 2013 and the threshold level of TL 27,000 for 2014. Income derived from Eurobonds is subject to this procedure regardless of the date of issue.
- A withholding tax of 0% for non-residents and 10% for residents was applied on the gains from the retention and sale of all bonds (government, private sector, etc.) and Treasury bills issued after January 1, 2006.
- Income from the sale of shares is subject to a withholding tax (0% for both residents and non-residents as of November 14, 2008). This provision of Temporary Article 67 of Income Tax Law does not apply to the shares of fully liable corporations listed on the Istanbul Stock Exchange (Borsa İstanbul), held for more than one year.
- On July 27, 2010 the Assembly approved Law No. 6009 which reduces the withholding tax rate to 0% for corporations and foreign taxpayers that are determined by the Ministry of Finance to be similar to investment funds and investment trusts established in accordance with the Capital Markets Code. From October 1, 2010 onwards, the withholding tax rate is 10% for resident and nonresident natural persons.

Dividends (except dividends from investment trusts) are currently subject to withholding tax of 15%. 50% of dividends earned in a year will be exempted from income tax and if the remaining 50% is above the threshold of TL 22,000 for 2010, the threshold of TL 23,000 for 2011, the threshold of TL 25,000 for 2012, the threshold of TL 26,000 for 2013 and the threshold of TL 27,000 for 2014 it will be included in taxable income and all withholding tax can be credited. There are special provisions for dividends derived from investment funds and investment trusts. Dividends derived from investment funds and trusts are subject to withholding tax (0% for resident and non-resident corporations and foreign taxpayers that are determined by the Minister of Finance to be investment funds and investment trusts established in accordance with the Capital Markets Code, 10% for resident and non- resident natural persons and corporations other than stated above). The withholding tax rate which applied to stock weighted funds decreased to 0% with a Cabinet Decree dated December 1, 2009 (numbered 2009/14580). The provisions of Temporary Article 67 of Income Tax Law do not cover the sale of participating certificates (held for more than one year), of Investment Funds of which at least 51% of such fund's portfolio is traded on the Istanbul Stock Exchange (Borsa İstanbul).

Income from bank deposits acquired after January 1, 2006 was subject to final withholding tax at a fixed rate of 15%. From January 1, 2013 onwards, the withholding tax rate applied on income from bank deposits varies between 10% and 18% according to account type.

CORPORATE INCOME TAX

In 2006, a new Corporation Tax Law (Law No. 5520) was enacted and the corporate income tax rate was reduced from 30% to 20%. Law No. 5520 also provided that:

- According to Tax Procedure Law, the duration of the useful life of the asset is taken into account for the calculation of the depreciation rate of assets acquired after December 31, 2003. The duration of the useful life of an asset and the depreciation rates are determined by the Ministry of Finance. The Ministry of Finance has announced the useful lives and depreciation rates of depreciable assets through communiqués numbered 333, 339, 365, 389, 399, 406 418 and 439. Taxpayers are free to choose, either the declining balances method or straight-line method of depreciation.
- Losses can be carried forward for 5 years.
- Investment tax allowance application was eliminated at the beginning 2006, but according to temporary Article 69 of Income Tax Law (Law No. 193), corporate taxpayers could deduct the amounts of investment allowance that they could not deduct from their earnings in 2005 and the amounts of investment allowance of uncompleted investments only from the earnings in 2006, 2007 and 2008. However, this provision related to the earnings of 2006, 2007 and 2008 was annulled by the Constitutional Court on January 8, 2010. Accordingly, an amendment was adopted by Parliament, which provides that corporate taxpayers may benefit from the investment allowance exemption in following periods without regard to time restrictions in cases where the investment allowance could not be deducted because of insufficient income. However, the deductible amount may not exceed 25% of the related annual gain amount. On February 9, 2012, the Constitutional Court annulled such restriction on the deductible investment allowance, so corporate taxpayers could deduct the entire amount of investment allowance (including the earnings in 2011).

INVESTMENT INCENTIVE SYSTEM

The incentive system became effective with a Cabinet Decree dated July 14, 2009 (numbered 2009/15199), as amended by the Cabinet Decree dated June 15, 2012 (numbered 2012/3305). The falls within the scope of the new incentive system;

1 - General Incentive Applications

2 - Regional Incentive Applications (divided into 6 regions.)

3 - Incentives of Priority Investments

4 - Large-Scale Investment Incentives

5 - Strategic Investment Incentives

Incentives to be provided under this application are shown in the table below.

The minimum amounts of fixed investments, according to the applications, are defined as follows.

- The minimum amount of fixed investment for the General Incentive System and Regional Incentive Applications are TL1 Million for the first and second region and TL 500,000 for the third through sixth region.
- The minimum amount of fixed investments for large scale incentive applications and strategic incentive applications has been determined must be at least TL 50 Million.

Incentives

VAT Exemption: In accordance with the measure, VAT is not paid for imported and/or domestically provided machinery and equipment within the scope of the investment encouragement certificate.

Customs Duty Exemption: Customs duty is not paid for the machinery and equipment provided from abroad (imported) within the scope of the investment encouragement certificate.

Corporate/Income Tax Reduction: Calculation of income or corporate tax with reduced rates until the total value reaches the amount of contribution to the investment according to the envisioned rate of contribution.

Income Tax Withholding Support: The measure stipulates that the income tax regarding the additional employment generated by the investment within the scope of the investment encouragement certificate will not be liable to withholding. The measure is applicable only for the investments to be made in Region 6 within the scope of an investment encouragement certificate.

Social Security Premium Support for Employer's Share: A part of Social Security Premium Support for Employer's Share required to be paid for additional employment, corresponding to minimum wage is met by the Ministry of Economy within the scope of incentive certificate.

Social Security Premium Support for Employee's Share: A part of Social Security Premium Support for Employee's Share required to be paid for additional employment, corresponding to minimum wage is met by the Ministry of Economy within the scope of incentive certificate. It is provided for regional, large-scale and strategic investments only in Region 6.

Interest Support: A financial support provided for certain investment loans with a duration of at least one year that covers a certain part of payable interest or payable profit share on loans.

Land Allocation: It means allocation of land for investments that incentive certificate is issued within the framework of the principles and procedures determined by the Ministry of Finance.

VAT Refund: VAT collected on the building & construction expenses made within the frame of strategic investments with a fixed investment amount of TL 500 million will be rebated.

Social security contributions are payable by employees at a rate of 14% and by employers at a rate of 20.5% of gross wages. For employees whose gross earnings are below the base or above ceiling earnings, which are determined at least twice a year, these contribution rates are applied to base or ceiling amounts respectively. According to the Social Security Law amended by Law No. 5198, the base wage for Social Security contributions has been equalized to the minimum wage since July 1, 2004. Social security contributions were paid into funds that were not consolidated under the central government accounts. These funds have been combined under the Social Security Institution by the Social Security Law No. 5502. Within the same income range, there is an additional contribution to the unemployment fund of 1% by the employee and 2% by the employer.

According to Article 28 of Law No.5763, as of January 1, 2008, the amount corresponding to 5 points of an employer's contributions shall be matched by the Treasury. Taking into account the socio-economic development index, an additional 6 points of employer's contribution has also been provided in the insured employment workplaces which employ 10 or more insured employees in 52 provinces determined by the Council of Ministers. Article 20 of the same law provides that a percentage of social security employers' contributions of male employees between ages 18-29 and female employees regardless of age that were recruited within 2 years of January 7, 2008 will be paid by the unemployment insurance fund according to the following scale: 100% for the first year of employment, 80% for the second year, 60% for the third year, 40% for the fourth year and 20% for the fifth year.

VALUE ADDED TAX

VAT is a broad based tax on consumer spending and normally has a neutral effect on businesses because the input VAT is deductible from the output VAT. The following transactions performed in Turkey, among others, are subject to VAT:

- the supply of goods and services in the course of commercial, industrial, agricultural, and professional activities;
- the importation of all goods and services; and
- activities described under VAT Law Article 1 as "deliveries and services arising from other activities".

It is possible to define exemptions under the VAT Law as full and partial exemptions. Full exemptions permit deductions and refund of taxes imposed; while partial exemption do not allow deduction and refund of taxes incurred and based on the scope of work provides for the incurrence of taxes as cost or expense.

The following transactions are fully exempt with the right to deduct input VAT:

- the exportation of goods;
- the supply of services abroad;
- the processing of goods for exports;
- the supply of ships, aircraft, and rail transportation vehicles, and the supply of services related to the manufacture of such vehicles;
- the supply of services to ships and aircraft at harbors or airports;
- the supply of international transport services;
- the supply of goods and services to persons engaged in the exploration for prospecting activities;
- the supply of machinery and equipment to persons who are normally subject to tax but who have provided an investment document that the machinery and equipment are part of the investment;
- international roaming contracts according to the reciprocity principle;
- the supply of goods and services related to the exploration, operation and refining of gold, silver and platinum;
- goods and services related to national security;
- goods and construction works related to the construction, renovation and enlargement of railways connected to seaports, seaports and airports;
- diplomatic exemptions;
- the supply of gas oil for trucks and tractor trailers which transport export goods; and
- any kind of equipment and computer programs designated exclusively for education, employment and to improve the daily life of disabled persons.

The following transactions are exempt from VAT without the right to deduct input VAT or refund VAT: (Partial Exemptions):

- Exemptions for cultural and educational purposes;
- Exemptions for social purposes;
- Exemptions for military purposes; and
- Other exemptions listed under VAT Law Article 17.

The VAT rates are currently as follows:

Standard Rate: The statutory rate of VAT is 10% for each transaction subject to VAT, however, the standard rate of 18% is applied pursuant to the Cabinet Decree.

Reduced rate: A reduced rate is applied to goods and services listed on Lists (I) and (II) annexed to Cabinet Decree No 2007/13033:

- 1% rate is applied to the goods and services which fall within the scope of List (I);
- 8% rate is applied to the goods and services which fall within the scope of List (II);
- The goods and services that do not fall within the scope of List (I) or List (II) are subject to standard rate;
- the reduced rate is 8% for food products (including chocolates and carbonated drinks but excluding alcoholic beverages), cashier machines, cinema, theatre, opera and ballet tickets, private educational services, books and

similar publications, certain medical equipment and medical products, medicines, textile and confection products and custom manufacturing of them, stationary materials for students, tourism services, services given by restaurants, bakeries and etc., services given to senior citizens, the handicapped and orphans, agricultural machinery and heavy construction equipment, blood and blood components used to treat humans and animals; and

- the reduced rate is 1% for particular agricultural products, newspapers and magazines and the rental of ships, aircrafts, and rail transportation vehicles, leasing machinery and devices for production pursuant to an investment incentive certificate.

DEVELOPMENTS IN TAX POLICY

Excise Tax

With a view toward simplifying and harmonizing the indirect tax system with the EU, a unified Excise Tax was enacted in June 2002 to consolidate a range of excise and specific taxes into a single tax charged on a limited range of goods. This tax consolidated a range of selective taxes on energy products, vehicles, alcohol and tobacco products, and a range of luxury consumer goods into a single tax charged on importation and domestic production of selected goods.

The Excise Tax tariff is composed of four lists:

- List I includes petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents;
- List II includes registered and non-registered motor vehicles;
- List III covers alcoholic beverages and tobacco products and cola; and
- List IV has a range of consumer durables and luxury goods.

The taxpayers for List I, III and IV are producers or importers and sellers through public auction. The taxpayers for vehicles under List II which are subject to entry and registration are the persons who carry out the trade, import to use or sale by auction and the taxpayers for vehicles under List II not subject to entry and registration are their importers, manufacturers and sellers by auction before excise duty is applied.

Excise duty is applied according to the list as ad valorem or specific: Specific Excise tax is applied for energy products in List I as per liters, kilogram or per cubic meter. Ad valorem Excise tax is applied for motor vehicles in List II. Generally, ad valorem excise tax is applied to alcoholic beverages in List III, but it must be higher than minimum specific tax. With the Cabinet Decrees numbered 2009/14882 and 2009/15725, for the harmonization process to EU Acquis, the rate of taxation of alcoholic beverages is decreased to 0% (except beer). So effectively specific excise tax is applied to alcoholic beverages (except beer). Also ad valorem Excise tax is applied to tobacco products in List III but, again, it must be higher than minimum specific tax. In respect of tobacco products, according to the Cabinet Decree dated January 1, 2013 (No. 2012/4116), a fixed tax amount of TL 0.1366 per 20 cigarettes (as of December 31, 2014) shall be added to the calculated amount set as ad valorem. Ad valorem tax is applied to goods in List IV.

The Excise Tax is an important tax which comprised approximately 27.2% of total tax revenues (excluding social security contributions) in 2010, 25.3% in 2011, 25.7% in 2012, 26.2% in 2013 and 25.8% in 2014.

Investment Tax Allowance System

The investment tax allowance system was simplified with an automatic uniform rate of 40% without an investment certificate, abolished the allowance for predicted investment, and eliminated the 19.8% withholding tax on the investment tax allowance. For recourses before the introduction of the law, previous provisions apply. However, article 19 of the Personal Income Tax Law regarding investment allowance exception was abolished by Law No. 5479 and the transition period covering 2006, 2007 and 2008 was covered by provisional article 69 of Law No. 5479. Also, the 3 year limitation rule for investment tax allowance was cancelled by the Constitutional Court in 2010. Thus, provided that certain conditions are met, taxpayers can deduct, regardless of any time limitation, the amount of investment allowance exemption which could not be accomplished in 2005. However, the deductible

amount may not exceed 25% of the related annual gain amount. On February 9, 2012, the Constitutional Court annulled that restriction on the deductible investment allowance, so corporate taxpayers could deduct the entire amount of investment allowance (including earnings in 2011). It was published in the Official Gazette on July 26, 2013. In addition to this, the taxation of revenues gained from investments in certain sectors and in certain regions with the reduced rates is regulated by Article 32/A which was added to the Corporate Income Tax Law through Article 9 of the Law No. 5838 on February 28, 2009. Government Decrees (No.2009/15199 and No.2012/3305) regarding State Incentives on Investments were also published in the Official Gazette on July 16, 2009 and June 19, 2012, respectively.

Minimum Living Allowance

A tax allowance for wage-earners which was enacted by Repeated Article 121 was abolished by Article 31 of the Law No. 5615. Instead, a minimum living allowance which was enacted by Rearranged Article 32 of the Personal Income Tax Law will be amended and applied to income that is received as of January 1, 2008 by Article 2 of the Law No. 5615. According to the amendment, the annual gross amount of minimum wage which is received from the beginning of the calendar year in which the wage is earned is multiplied by 50% for the taxpayer him or herself, 10% for a spouse who neither works nor has an income, 7.5% for the each of the first two children and 5% for any other children. This final number is multiplied with the rate (15%) applied to the first income bracket of the Personal Income Tax Schedule stated in Article 103 so that the minimum living allowance amount is calculated. One-twelfth of this amount is deducted from the income tax amount calculated for monthly wage income. The minimum living relief is applied to employees in the industry sector. On December 31, 2013, the Minimum Wage Commission Decision eliminated the concept of a different minimum wage based on age. Thus, one minimum wage was introduced.

Individuals whose wages are not taxed in the lump sum method may benefit from the minimum living allowance.

VAT Developments

On May 30, 2007, Government decree (No.2007/12143) reduced VAT collected from hotel, hostels, holiday villages and similar accommodation services and asylums, nursing homes and orphanages to 8% from 18% was published in the Official Gazette (No.26537). On July 19, 2008, a Government decree (No. 2008/13902) regarding the reduction of VAT was published in the Official Gazette (No. 26941). With this decree, rentals of ships, aircrafts and railway vehicles (the supply of these vehicles are exempt from VAT according to the 13th article of VAT law (Law No. 3065) to taxpayers who are partially or fully engaged in renting and operating these vehicles was reduced to 1%.

Article 85 of Law No. 6111 on Restructuring of Certain Receivables and Amendment of Social Security and General Health Insurance Law and Other Certain Laws and Decrees amends Article 17 of the VAT Law, so that delivery of leasing certificates by asset leasing companies will be within the scope of VAT exemption.

Also, transfer of movable, immovable and intangible assets by sourcing companies to leasing companies and in the final return of these assets by leasing companies to sourcing companies will fall within the scope of VAT exemptions.

With a new provisional article added to the VAT Law by Law No. 6322, effective until December 31, 2023, any excess of VAT that cannot be deducted during the year and is incurred due to construction expenses relating to strategic investments in which a minimum fixed investment of TL 500 million is made upon receipt of investment incentive certificates will be refunded within the succeeding year to the applicable taxpayer.

Article 32 of the Law No. 6518 amends Article 17 of VAT Law, going forward, the renting, transferring or selling of intangible rights related with patented or utility invention as a result of research, development, invention and software activities in scope of Corporate Tax Law (Law No. 5520) is exempt from VAT.

Article 3 of the Law No. 6637 amends provisional article 26 of VAT Law, going forward, (a) delivery of goods and services for official use or (b) delivery of free goods and services with the aim of social and economic aid, to international organizations associated with any host government or any agreements to which Turkey is a party, and any program, fund, agencies and specialized agencies connected therewith, is exempt from VAT during the term of the international agreement.

The delivery of goods and services to non-citizen of Republic of Turkey managerial staff of the above described international organizations, program fund agencies and specialized agencies, is exempt from VAT during their duty term.

With “y” paragraph added to VAT Law by Law No. 6495, in the context of Financial Leasing, Factoring and Financing Companies Act dated November 21, 2012, (No. 6361), the following transactions are exempt from VAT (provided that immovable property is transferred to the lessor at the end of the contract):

- Selling of this immovable property to the financial leasing company,
- Renting of immovable property to people who sell them,
- and transferring the immovable property to the tenant at the end of the contract.

Income Tax Developments

Personal Income Tax

On June 26, 2006, a new law (Law No. 5527) was approved by the Assembly and published in the Official Gazette on July 7, 2006 (No. 26221) and such law reduced the withholding tax on earnings derived from financial instruments by non-residents to zero and provided that non-residents are not responsible for any declaration. The withholding tax for domestic investors was 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. The withholding rate for income derived from sale of shares by domestic investors was reduced to 0% (as of November 14, 2008) by the Council of Minister’s Decree No. 2008/14272 dated November 13, 2008.

On October 15, 2009, the Constitutional Court cancelled the withholding tax implementation and the decision was published in the Official Gazette on January 8, 2010. On July 27, 2010, the Assembly approved Law No. 6009 which reduced the withholding tax rate to 0% for corporations.

With the amendment of Article 75 of the Personal Income Tax Law by Article 80 of Law No. 6111 the income derived from leasing certificates issued by leasing companies will be considered capital gains. Therefore, income derived from leasing certificates issued abroad will be considered within the scope of withholding according to article 94 of the Personal Income Tax Law. Provisions of Temporary article 67 of the Personal Income Tax Law will be applicable to income derived from leasing certificates issued in Turkey as for the taxation of sales and incomes derived from holding period of securities and other capital market instruments.

With the new article added to the Personal Income Tax Law by Law No. 6322, for investments in certain provinces determined by the Council of Ministers, during the period of the effective date of this article and December 31, 2023, for the incentive certificates to be issued by the Ministry of Economy and income tax calculated for the portion of actively recruited employees’ wages corresponding to minimum wage tax will not be paid for ten years starting from the date when such investment partially or wholly begins to operate.

With the new provisional article added to the Personal Income Tax Law by Law No. 6327, until December 31, 2017, natural persons who are investors (provided that hold participation shares of joint-stock companies for at least two years) will be able to deduct from their income tax base up to 75% of the capital they invest.

For natural persons who hold participations in corporations whose projects have been supported within the last five years within the scope of programs determined by Ministry of Science, Industry and Technology, Scientific and Technological Research Council of Turkey, Small and Medium Enterprises Development Organization, the above mentioned deduction rate is set as 100%.

Corporate Income Tax

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).

Article 5 of the Corporate Income Tax Law has been amended by Article 90 of Law No. 6111, so that the exemption rate of 75% which is applicable for the income derived from the sale of immovable property which is kept in the enterprise at least for two full years will be 100% for the income derived from the turnover of assets by sourcing companies to leasing companies and from the turnover of these assets by leasing companies back to the sourcing companies. The condition that the immovable property must be kept in the enterprise at least for two full years is not applicable.

With the amendment of Article 15 of the Corporate Tax Law, income derived from leasing certificates issued by asset leasing companies and their compulsory payment by the intermediary company will be considered within the scope of withholding.

Amendment of Article 32/A of the Corporate Income Tax Law by Law No. 6322, the Council of Ministers is authorized, as a deduction from the investment contribution amount (which will be calculated from the start of the investment) to apply the reduced corporate income tax rate to an investor's revenue from other activities within the investment period, provided that such deduction will not exceed 50% of the total investment contribution amount and the amount of investment expense;

Declaration is not required for gains from foreign funds, if portfolio management companies that have a portfolio management license issued by the Capital Markets Boards are not such funds' permanent representative, permanent establishment or legal head office, if certain conditions are met.

New Incentive System in Corporate Income Tax Law

According to Article 32/A annexed to Corporate Income Tax Law No. 5520 pursuant to Law No. 5838, earnings which are stipulated in the Corporate Income Tax Law and are derived from investments made under the coverage of an incentive certificate issued by the Ministry of Economy shall be subject to reduced corporate income tax rates until such earnings reach the investment contribution rate beginning from the accounting period in which the investment begins to operate fully or partially, except for institutions operating in finance and insurance sectors, business partnerships, contracting businesses as well as the investments made under the Law No. 4283 and the Law No. 3996, dated August 5, 1994, and the investments made upon copyrights. Law No. 6322 provides for a reduced corporate tax rate for investments in the incentive system

Reduced income or corporate tax rates will be imposed on the investor's income under the incentive scheme according to the characteristic of the investment until the amount calculated on the basis of government's contribution rate, determined by the same scheme and corresponding to a certain percentage of the fixed investment amount, is reached. The contribution rate to investment refers to the rate of the fixed investment subject to tax deduction, whereas tax deduction refers to the rate of income or corporate tax to be reduced until the contribution rate is reached.

Other Taxes

With an amendment to the Stamp Duty Law, the turnover of assets (movable, immovable and intangible) to leasing companies or sourcing companies, the establishment of mortgages in connection with these turnovers, leasing certificates and documents prepared in connection with the leasing of these assets by leasing companies will be exempt from stamp tax.

Article 84 of the Law No. 6111 amended Article 123 of the Fee Law so that the turnover of assets to a leasing companies or sourcing company, and the establishment of mortgages in connection with these turnovers are exempt from fees.

A new article added to the Tax Procedural Law by Law No. 6322, permits venture capital funds founded in Turkey under the supervision of the CMB to set aside from relevant corporate earnings up to the lesser of 10% of declared income or 20% of shareholder's equity, for the purpose of adding capital to venture capital trusts and funds or purchasing shares from these funds and trusts.

TAX REVENUES

The following table sets forth tax revenues for the years indicated:

Table 47

(in millions of TL)	2010	2011	2012	2013***	2014
Total Tax Revenues	210,560	253,809	278,781	326,169	352,514
Personal Income Tax	40,392	48,807	56,494	63,761	73,902
Corporate Income Tax	20,925	26,993	29,017	28,988	32,305
Motor Vehicle Tax	5,033	6,004	6,716	7,353	7,787
Domestic Value Added Tax (VAT)	26,325	29,957	31,572	37,995	38,121
Excise Tax	57,285	64,189	71,706	85,462	91,095
<i>Petroleum Consumption Tax (Within Excise Tax)</i>	31,697	33,573	35,935	45,158	45,628
Banking and Insurance Transaction Tax	3,571	4,288	5,471	6,160	7,487
Stamp Duty	5,083	6,464	7,360	9,416	10,325
Fees	7,034	8,344	9,675	12,948	14,511
Special Communication Tax	4,121	4,419	4,473	4,545	4,640
VAT on Imports	36,208	48,685	50,000	62,727	64,411
Other Tax Revenues	4,584	5,659	6,297	6,814	7,931

Source: *Ministry of Finance General Directorate of Public Accounts, UT*

*** Some figures of 2013 were revised according to the 2013 Final Account data.

The following table sets forth the components of tax revenues as a percentage of GDP for the years indicated:

Table 48

	2010	2011	2012	2013***	2014
Total Tax Revenues	19.16	19.56	19.68	20.81	20.15
Personal Income Tax	3.68	3.76	3.99	4.07	4.22
Corporate Income Tax	1.90	2.08	2.05	1.85	1.85
Motor Vehicle Tax	0.46	0.46	0.47	0.47	0.45
Domestic Value Added Tax (VAT)	2.40	2.31	2.23	2.42	2.18
Excise Tax	5.21	4.95	5.06	5.45	5.21
<i>Petroleum Consumption Tax (Within Excise Tax)</i>	2.88	2.59	2.54	2.88	2.61
Banking and Insurance Transaction Tax	0.32	0.33	0.39	0.39	0.43
Stamp Duty	0.46	0.50	0.52	0.60	0.59
Fees	0.64	0.64	0.68	0.83	0.83
Special Communication Tax	0.38	0.34	0.32	0.29	0.27
VAT on Imports	3.30	3.75	3.53	4.00	3.68
Other Tax Revenues	0.42	0.44	0.44	0.43	0.45

Sources: *Ministry of Finance General Directorate of Public Accounts, UT*

*** Some figures of 2013 were revised according to the 2013 Final Account data.

STATE OWNED ENTERPRISES (SOEs)

SOEs (companies that are subject to Decree Law 233, 100% of shares of which are owned by the Treasury) continue to play an important role in the Turkish economy. As of December 31, 2014 there were 21 SOEs in the Treasury's portfolio (including three affiliates of Turkish State Railways ("TCDD")). Besides the Treasury's portfolio, there are public undertakings in the Privatization Administration's portfolio. There are also wholly or majority state owned banks, such as: T.C. Ziraat Bank, T. Halk Bank, Kalkinma Bank and Eximbank. A publicly owned satellite company TURKSAT A.S., and a postal company PTT A.S., together with the banks named above have their own legislation. In addition, there are various publicly majority-owned companies, which are the subsidiaries of government agencies, municipalities and foundations controlled by the government.

Major non-financial companies in the Treasury's and Privatization Administration's portfolios are MKE (Mechanical and Chemical Industry Corporation); TMO (Turkish Grain Board), EUAS (Electricity Generation Corporation), TETAS (Turkish Electricity Trading and Contracting Company), TEIAS (Turkish Electricity Transmission Company), BOTAS (Petroleum Pipeline Corporation), TCDD (Turkish State Railways), TKI (Turkish Coal Enterprise), TTK (Turkish Hard Coal Company), Eti Maden (ETI Mine Works), TPAO (Turkish Petroleum Corporation), CAYKUR (Tea Company) and TSFAS (Turkish Sugar Factories Inc.). Supervision, regulation and audit of the aforementioned companies is carried out by several government agencies; including, the Undersecretariat of Treasury, the Ministry of Development, the Prime Ministry, the Turkish Court of Accounts, Line Ministries and the Privatization Administration.

In addition, starting in 2015, SOEs became subject to independent external audit based on the International Standards on Auditing (ISAs), meaning that starting in 2015, SOEs will also report their financial statements according to International Financial Reporting Standards (IFRS). Furthermore, SOEs are required to establish internal control systems in order to enhance their corporate governance and control mechanisms in line with the international corporate governance principles.

State-owned banks Ziraat Bank and Halk Bank are public joint-stock companies, subject to banking and commercial laws only. Ziraat Bank and Halk Bank are among the largest commercial banks, holding 23.4% of total savings deposits in Turkey as of December 31, 2014.

In accordance with the provisions of the Council of Ministers' Decision No. 2010/964, which modified Banking Law No. 4603, the privatization deadline of the state-owned banks, which was previously November 2010, was postponed to November 25, 2015. Treasury shares at Halk Bank were taken into the privatization portfolio and program in accordance with High Privatization Council Decree No.2007/8. An initial public offering was held for 24.98% of the Halk Bank's shares and the shares started trading on the Borsa Istanbul on May 10, 2007.

In 2012, Halk Bank's shares were offered to the public for the second time and Halk Bank's free float rose to 48.9%.

The following table summarizes information related to revenues or losses of any material SOE for the years indicated:

Table 49

Thousand TL Company Name	Profit/Losses of Major Companies *				
	2010	2011	2012	2013	2014
Mechanical and Chemical Industry Corporation (MKE)	60,670	164,969	138,808	136,861	5,759
Turkish Grain Board (TMO)	281,791	44,276	13,530	102,635	70,073
Electricity Generation Corporation (EUAS)	5,503,062	1,555,094	573,440	2,981,213	-2,527,342
Turkish Electricity Trading and Contracting Company (TETAS)	1,123,540	-463,228	859,122	573,859	25,429
Turkish Electricity Transmission Company (TEIAS)	469,852	311,183	1,090,538	1,037,169	1,422,558
Petroleum Pipeline Corporation (BOTAS)	202,544	-1,342,378	-606,244	1,556,465	-587,278
Turkish State Railways (TCDD)	-866,337	-733,327	-877,510	-1,280,554	-1,874,309
Turkish Coal Enterprise (TKI)	340,110	513,807	860,016	178,037	-8,865
Turkish Hard Coal Company (TTK)	-456,375	-460,056	-529,356	-558,658	-580,760
ETI Mine Works (Eti Maden)	439,378	841,486	779,077	841,797	1,032,916
Turkish Petroleum Corporation (TPAO)	1,297,369	1,792,792	1,471,136	1,634,197	833,427
Tea Company (CAYKUR)	-26,991	-74,557	-64,828	-39,301	12,063
Turkish Sugar Factories Inc. (TSFAS)	-59,750	-134,883	-198,229	-251,362	-197,026
Turkstat Company (TURKSAT A.S.)	78,482	162,202	185,130	200,751	79,128
Post, Telegraph and Telephone Administration (PTT A.S.)	143,622	174,038	171,445	64,543	287,925
T.C. Ziraat Bank	4,469,360	2,779,504	3,504,725	4,378,523	5,178,733
T. Halk Bank	2,509,285	2,636,696	3,329,139	3,364,892	2,727,255
Kalkinma Bank	28,502	32,158	55,083	47,262	59,179
Exim Bank	256,221	230,256	221,191	245,927	427,009

* *Source:* Undersecretariat of Treasury

The primary reasons for the yearly changes of profit or losses are fluctuations in exchange rate and oil prices, privatizations and restructurings, price adjustments, and electricity generation from hydroelectric power plants depending on yearly precipitation.

In addition to receiving funding directly from the Government budget in the form of capital injection, SOEs are also allowed to borrow from domestic commercial banks and foreign banks.

The borrowing requirements of SOEs in the Treasury's portfolio and of non-financial companies in the Privatization Administration's portfolio decreased from approximately TL 4.5 billion in 2013 to TL591 million in 2014.

The following table summarizes information related to the financing requirements of the above mentioned SOE System for the years indicated:

Financing Requirements of SOE System

Table 50

<i>Thousand TL</i>	2010	2011	2012	2013	2014*
Total financing requirement	-4,977,832	-8,524,490	-9,946,091	-5,818,873	-9,619,646
Increase (reduction) from internally generated funds	5,881,526	3,403,913	4,008,888	-336,334	-5,409,361
Net financing requirement from outside sources	903,694	-5,120,577	-5,937,203	-6,155,207	-15,029,007
Transfers from consolidated budget	6,137,769	7,930,969	6,676,518	10,681,111	15,619,813
Borrowing requirement	7,041,462	2,810,392	739,315	4,525,904	590,806
Deferred payments	-66,498	-34,615,375	5,564,712	-16,981,972	-16,632,851
Advance payments	-3,639,817	31,922,824	-6,404,801	8,822,183	5,788,049
Cash financing requirement	3,335,147	117,841	-100,775	-3,633,885	-10,253,996
Change in cash	-1,565,470	574,232	-481,964	363,267	8,518,040
Securities and deposits	276,602	-746,396	461,594	61,874	-6,627
Domestic bank borrowing, net	-559,975	499,777	104,352	320,265	2,128,555
Foreign borrowing, net	-1,486,303	-445,454	16,793	2,888,480	-385,972
Government bonds	0	0	0	0	0

* Provisional

Source: the Treasury

In 2014, the SOE System reported a loss of TL 1.9 billion.

SOE System investments accounted for 13.3% of total public sector fixed investments in 2010, 12.8% in 2011, 11.8% in 2012, 10.3% in 2013 and 10.5% in 2014. Budgetary transfers to the SOE System accounted for approximately, 2.1%, 2.5%, 1.8%, 2.6% and 3.5% of central management budget expenditures in 2010, 2011, 2012, 2013 and 2014, respectively.

The following table summarizes the profits and losses of SOE System for the years indicated:

Profits and Losses of SOE System

Table 51

<i>Thousands of TL</i>	2010	2011	2012	2013	2014*
Total Revenues	100,556,831	115,306,580	128,662,018	118,653,579	126,720,042
Total Expenditures	93,745,958	112,711,349	124,318,350	115,261,669	128,640,151
Profit (loss)	6,810,873	2,595,231	4,343,668	3,391,910	-1,920,109
Profit (loss)	6,810,873	2,595,231	4,343,668	3,391,910	-1,920,109

* Provisional

Source: the Treasury

Electricity Sector

The restructuring process for electricity markets in Turkey has been in progress since early 2000s. TEIAS, EUAS and TETAS: Significant steps were taken towards a fundamental restructuring of SOEs in the electricity sector after the Electricity Market Law (Law No. 4628), came into effect in March 2001. The ultimate goal is to develop a transparent, competitive and liberalized electricity market, to achieve stability of supply, and to ensure environmentally friendly electricity at a low cost and of good quality.

Turkish Electricity Generation and Transmission Company (“TEAS”) was divided into three separate entities as Electricity Generation Company (“EUAS”), Turkish Electricity Transmission Company (“TEIAS”) and Turkish Electricity Trading And Contracting Company (“TETAS”) in 2001. These companies are responsible for the generation of electricity at power plants, transmission of electricity and trading of electricity, respectively.

With the completion of restructuring process, the distribution regions were divided into 21 regions. Distribution of the electricity to the final consumer is being carried out by these 21 distribution companies, all of which were privatized as of 2013.

While the Government keeps the ownership of TEIAS, it regulates the sector through the Energy Market Regulatory Authority (“EMRA”). Standard regulatory functions include licensing, tariff setting, market monitoring, and dispute settlement.

As of 2014, EUAS has 13 thermal and 72 hydroelectric power plants and it has an installed capacity of 21,879MW in total. 8,884 MW of this capacity is from thermal power plants and 12,995 MW is from hydroelectric power plants. While Turkey has a 69.520 MW installed capacity, the share of EUAS of the installed capacity is 31.5% in the sector.

TEIAS operates high voltage transmission systems in Turkey and has a monopoly in this sector.

TETAS is primarily responsible for:

- purchasing electricity from privately owned Build-Operate (“BO”), Build-Operate-Transfer (“BOT”) and Transfer of Operating Rights (“TOOR”) power plants and EUAS hydro power plants;
- selling the purchased electricity to electricity distribution companies and eligible companies; and
- exporting and importing electricity.

The New Electricity Market Law (“EML”) (Law No: 6446) was enacted in March 2013. Former Electricity Market Law No. 4628 was partially amended by the new law and its title was changed to “Law on the Organization and Duties of the Energy Market Regulatory Authority.”

The EML (Law No: 6446) includes some important changes, such as amendments to license types, framing provisions for each type of market activity, specific provisions for certain license types (i.e., generation, distribution) and a preliminary licensing mechanism. It also establishes a new company, the Energy Market Operation Joint Stock Company (“EPIAS”) which will be an independent private company authorized for the market operation activity. With the completion of registration procedures, EPIAS was officially founded on March 18, 2015 and it is expected to start operation on September 18, 2015. EPIAS is expected to also take over the Market Financial Settlement Center’s (“PMUM”) functions, including carrying out the intra-day market activities which started on July 1, 2015. In order to announce the government’s intent to privatize the state-owned electricity utilities and liberalize the electricity market, the “Electricity Sector Reform and Privatization Strategy Paper” was issued on March 17, 2004 and was revised in 2009 in the light of the recent developments in the electricity market. This Strategy Paper defines the implementation procedures and principles for the electricity sector liberalization and privatization program. The 2009 amendment includes various mechanisms regarding supply security and involves the energy mix targets for 2020.

Within the scope of the privatization program in the electricity sector, as of 2013, all of the distribution companies have been privatized. As for the electricity generation companies, the privatization process for Yenikoy, Yatağan, Kemerköy, Catalağzi Thermal Power Plants and Kayakoy, Esençal, Isiklar, Dere and Ivriz hydro power plants, which have a total 1,986 MW installed capacity, was completed in 2014. The privatization process for Orhaneli, Tunçbilek, Soma Thermal Power Plants, which have a total 1,565 MW installed capacity, was completed in June 2015 and the privatization process for Anamur, Bozyazi, Mut-Derincey, Silifke and Zeyne hydro power plants is still ongoing.

Based on the High Planning Council Decision (14/02/2008 Nr. 2008/T-5), a Cost Based Price Adjustment Mechanism (“CPM”) was adopted as of July 1, 2008. According to the CPM, tariffs of companies are revised based on

changes in their electricity production and/or purchase costs. CPM has both backward and forward cost linkages. Accordingly, the revised tariffs will allow companies to realize annual financial targets in order to finance their planned investments and other expenses.

An agreement relating to a nuclear energy operator facility in Akkuyu Field was signed between the Turkish and Russian Governments in May of 2010. The Akkuyu Nuclear Power Plant is planned to have an installed capacity of 4,800 MW. The construction of Akkuyu Nuclear Power Plant is expected to start by the end of 2015. A second nuclear power plant in Sinop is planned to be built in collaboration with Turkey and Japan. The Inter-Governmental Agreement (“IGA”) on Cooperation in the improvement of Nuclear Power Plants and Nuclear Power Industry in Turkey was signed between the Governments of Japan and Turkey on May 3, 2013. The Sinop Nuclear Power Plant is expected to have an installed capacity of 4,480 MW.

Gas Sector

BOTAS: The sector is dominated by the government-owned Petroleum Pipeline Corporation (“BOTAS”), which is one of the most prominent SOEs in the energy sector and owned pipeline infrastructure for oil and gas transmission, LNG terminals, and gas distribution facilities.

According to Law No. 4646, BOTAS’s vertical integrated body was aimed to be separated in 2009 and a separation of accounts of BOTAS relating to transmission, storage, sales and import activities was completed.

Based on Law No. 4646 which aims to reduce the market share of BOTAS to 20%, BOTAS transferred 4 bcm/year of its import contract in 1998 with Gazexport to four private companies. BOTAS decided not to renew gas contracts of 6 billion cubic meters (bcm) which terminated in 2011 due to a pricing disagreement. In addition to BOTAS, Shell, Bosphorus, Enerco and Avrasya Gaz started import and wholesale activities.

In addition, some amendments were made to Law No. 4646 with the Law Amending Electricity Market Law and Some Other Laws No. 5784 published in the Official Gazette on June 26, 2008. With this law, BOTAS and other market participants were allowed to import liquefied natural gas.

Within the scope of the Trans-Anatolian Natural Gas Pipeline (TANAP) Project, which is expected to deliver the natural gas resources produced in Azerbaijan’s Shah Deniz II field to Turkey and then to Europe through Turkey, the Gas Transportation Agreement, Funding Agreement and Shareholder Agreement were signed on May 30, 2014.

The TANAP project is expected to provide supply diversification and ensure energy supply security of Turkey and European Union countries. Southern Gas Corridor Closed Joint Stock Company (58%), BOTAS (30%) and BP (12%) are the three partners in the project.

Mining Sector

Eti Mine: Eti Mine, with U.S.\$871 million export revenue in 2014, is an important SOE in the mining sector. The company’s operations include mining, processing and marketing of Turkey’s boron resources. Presently, Eti Mine has 72.8% of the world boron reserves, and meets approximately 47% of the world boron demand, according to the Eti Maden Boron Sector Report dated May 2015. Also, Turkey’s lignite reserves are 13.3 billion tons and EUAS has 55% of all lignite reserves.

TKI: Turkish Coal Enterprise (“TKI”) holds 15% of the Turkish lignite reserves (as of 2014) and sells its products mainly to thermal power plants. Lignite is used for heating and various industrial sectors are the other customers of TKI. Also, TKI distributes lignite to low-income families and receives duty-loss payments from the Treasury for this distribution.

TTK: Turkish Hard Coal Company (“TTK”) is an SOE that produces hard coal in the Zonguldak basin of Turkey. The company primarily sells its product to the energy sector. The iron and steel industry is the second important consumer for hard coal. TTK has been receiving capital transfers from the Treasury, and receives duty-loss payments for coal distribution to low-income families.

Petroleum Sector

TPAO: Turkish Petroleum Corporation (“TPAO”), formerly an integrated company engaged in all the activity fields of the oil industry including exploration, production, refinery, marketing and transportation, is currently only involved in the exploration, drilling and production sector in the domestic market. TPAO is responsible for approximately 75% of Turkey’s crude oil production and 55% of Turkey’s natural gas production.

In addition, Turkish Petroleum Law No. 6491, which aims to provide more competitive, transparent, reliable and stable conditions for domestic and foreign investors for upstream activities, entered into force in June 2013.

On May 26, 2014, TPAO reached an agreement to acquire the French energy firm TOTAL’s 10% stake in Azerbaijan’s Shah Deniz gas project and Southern Caucasian Pipeline. The deal increased TPAO’s stake in the project to 19% from 9%, making TP the second largest partner in the multinational consortium.

Shah Deniz is one of the world’s largest gas-condensate fields, with reserves of about 1 trillion cubic meters of gas and 2.2 billion barrels of condensate. As of 2014, TPAO’s sales revenue from the Shah Deniz gas project was U.S.\$1.56 billion, according to TPAO.

Agriculture Sector

TMO: Turkish Grain Board (“TMO”), which is associated with the Ministry of Food, Agriculture and Livestock, is an intervention agency which regulates the grain market when necessary. TMO has nearly 4.3 million tons of storage capacity and has purchased offices throughout Turkey, as well as licensed warehouses for grain since 2011.

TSFAS: Turkish Sugar Factories Inc. (“TSFAS”) was established to produce and sell a variety of sugars. Having nearly 50% market share in sugar sales, the company carries out sugar production in 33 factories, 25 of those factories produce sugar and 8 of them process by-products or factory equipment. TSFAS was taken into the privatization program on August 12, 2008 and the privatization process is still in progress. CAYKUR: The fundamental purpose of the Tea Enterprise (“CAYKUR”) is to improve the tea agriculture and the quality of tea leaf and to produce and sell tea. CAYKUR operates 46 factories and has a 55% market share in tea sales.

Railways

TCDD: TCDD (Turkish State Railways) provides passenger and freight transport services as the only railway transportation company in Turkey. High speed trains (HST) have been in operation on Ankara-Eskisehir line (245 km) since 2009 and on Ankara-Konya line (212 km) since 2011. HST operations started between Konya and Eskisehir (360 km) in 2013. Ankara-Istanbul HST (533 km) operations started on July 25, 2014. Construction continues on Ankara-Izmir (624 km) and Ankara-Sivas (405 km) HST lines, which are expected to be in service in the coming years.

Law no: 6461 concerning the “Liberalization of the Turkish Railway Transport” entered into force on May 1, 2013. TCDD is being restructured as the railway infrastructure operator. For the purpose of freight and passengers transport, TCDD Transport Inc. will be established as TCDD’s Affiliate Company. Law no: 6461 also provides for partnership with private companies in the railway sector.

As of the end of 2014, TCDD owns 12,485 km of track, 1,213 km of which is a high speed train track, 620 locomotives, 117 EMUs, 80 DMUs, 12 high speed EMUs, 916 passenger cars, and 18,967 wagons, according to the TCDD 2014 Sector Report.

PRIVATIZATION IMPLEMENTATIONS

Turkey aims to further enhance its functioning market economy through ensuring openness and competitiveness; upgrading productivity; strengthening the investment climate to attract more Foreign Direct Investment, encouraging private initiative/entrepreneurial skills and, as a result, promoting employment.

In furtherance of these goals, major legislative changes have taken place in Turkey in recent years such as:

- Electricity Market Law,
- Natural Gas Market Law,
- Telecommunications Law,
- Sugar Law,
- Tobacco Law,
- Banking Law,
- Petroleum Market Law,
- Foreign Direct Investment Law,
- Company Law,
- Law concerning the elimination of FDI restrictions in some sectors,
- Law regarding several amendments which is aimed at accelerating privatization, and
- Provisions authorizing real estate purchases to foreigners.

As a result, unprecedented privatization continues and a noticeable increase in foreign investor interest has occurred. Overall privatization proceeds realized by the Turkish Privatization Administration (PA) have reached U.S.\$ 64.9 billion (on a commitment basis) as of December 31, 2014, of which U.S.\$45 billion in revenue has been generated from the privatization of blue chip companies, including: Türk Telekom, Tüpraş, Erdemir, Halkbank, Petkim and other power generation and distribution companies.

Cash transfers to the Treasury from the Privatization Administration (including transfers from privatized companies) were U.S.\$ 1.71 billion, U.S.\$1.3 billion, U.S.\$0.8 billion, U.S.\$4.5 billion and U.S.\$3.5 billion for the years 2010, 2011, 2012, 2013 and 2014, respectively. The total amount realized from January 1, 1986 through December 31, 2014 is U.S.\$39.9 billion.

From the period January 1, 2010 through December 31, 2014, the privatization implementations of Turkey have resulted in a net worth of approximately U.S.\$26.3 billion (privatization implementations completed by PA). The following indicates a summary of the most significant privatization implementations completed between January 1, 2010 and December 31, 2014.

Name of the Company	Field of Operation	Date of Privatization	Amount (U.S.\$, million)
Samsun Port of Turkish Railways	Port operation	3/31/2010	125.2
Bandırma Port of Turkish Railways	Port operation	5/18/2010	175.5
Osmangazi Electr.Dist.(Concession)	Electricity Dist.	5/31/2010	485
Çamlıbel Electr.Dist.(Concession)	Electricity Dist.	8/31/2010	258.5
Uludağ Electr. Dist.(Concession)	Electricity Dist.	8/31/2010	940
Çoruh Electr.Dist.(Concession)	Electricity Dist.	9/30/2010	227
Yeşilirmak Elec.Dist.(Concession)	Electricity Dist.	12/29/2010	441.5
Firat Elec.Dist.(Concession)	Electricity Dist.	12/31/2010	230.25
Trakya Elec. Dist.(Concession)	Electricity Dist.	12/30/2011	575
İskenderun Sea Port of Turkish State Railways	Port Operation	12/30/2011	372
PETKİM(11% of minority shares sold to the parent Company)	Petrochemical	6/22/2012	168.5

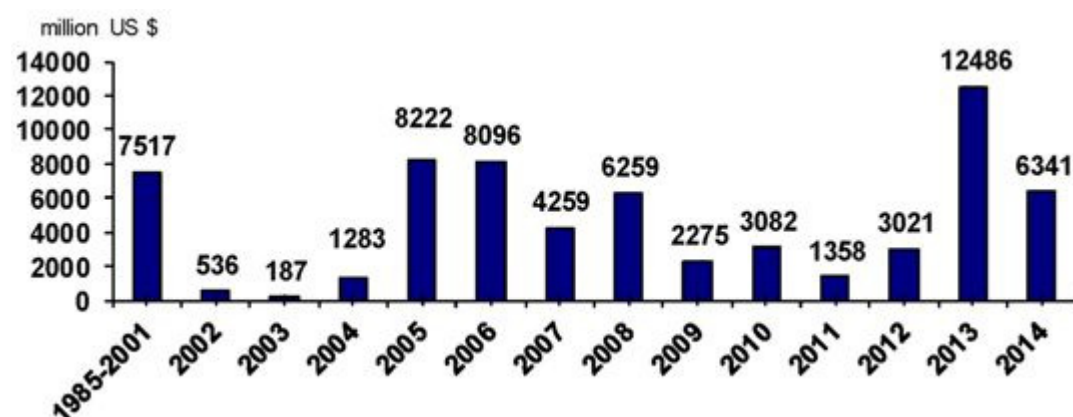
Halkbank (Secondary Offering of 23.92 %)	Banking	11/16/2012	2,520
Various real estate of the Government	Real estate	all year round	315
Başkent Doğalgaz Distr.	Natural gas dist. of Ankara	5/31/2013	1,162
Hamitabat naturalgas fired power generation plant	Power Generation	08/01/2013	105
Akdeniz Elect. Dist (Concession)	Electricity Distr.	05/28/2013	546
Boğaziçi Elect. Distr (Concession)	Electricity Distr.	05/28/2013	1,960
Gediz Elect.Distr. (Concession)	Electricity Distr.	05/29/2013	1,231
Seyitömer Coal fired power gen.	Power Generation	06/17/2013	2,248
Aras Elect.Distr. (Concession)	Electricity Distr.	06/28/2013	128.5
Dicle Elect.Distr. (Concession)	Electricity Distr.	06/28/2013	387
Vangölü Elect.Distr. (Concession)	Electricity Distr.	07/26/2013	118
İstanbul Anatolian Side Elect. Distribution (Concession)	Electricity Distr.	07/31/2013	1,227
Kangal Coal fired power gen.	Power Generation	08/14/2013	985
Toroslar Elect.Distr. (Concession)	Electricity Distribution	09/30/2013	1,725
Various river run power gen. during 2013	River run power gen.	all year round	195
Various real estate of the Gov't. during 2013.	Real estate	all year round	407
İstanbul Salıpazarı Cruise Port	Port Operation	02/14/2014	702
Yatağan Coal fired power gen.	Power Generation	12/01/2014	1,091
Çatalağzi Coal fired power gen.	Power Generation	12/22/2014	350
Kemerköy, Yeniköy coal fired Power gen. and Kemerköy Sea Port.	Power Gen. & Port opn	12/23/2014	2,671
Various real estate of the Gov't During 2014	Real estate	all year round	1,512.7

Note: Only privatizations worth U.S.\$100 million or more are listed above.

Privatization implementations by PA

Table 52

Privatization Implementations by years



Source: Privatization Administration

Privatizations realized by other institutions

Name of the Company	Year	Field of Operation	Amount (U.S.\$, billion)
Vakıfbank	2005	Banking (21.9% IPO)	1.3
İstanbul Atatürk A'Port	2005	Airport Operation (BOT/TOR)	3
İstanbul S. Gökçen Int'l A'Port	2007	Airport Operation (BOT/TOR)	3.1
Antalya Int'l A'port	2007	Airport Operation (BOT/TOR)	3.2
İstanbul Ferry & Seabus Inc.	2011	Vehicle and Passenger Transport by Sea	0.9
İzmir A. Menderes Int'l A'Port	2012	Airport Operation (BOT/TOR)	0.8
Total			12.3

Ongoing privatization implementations

The privatization program in implemented in various sectors is summarized below.

ENERGY SECTOR

With the aim of providing a framework for the privatization of the energy sector, the Electricity Energy Sector Reform and Privatization Strategy Paper (the Strategy Paper) was prepared by the State Planning Organization, Treasury, Energy Market Regulatory Authority ("EMRA") and Privatization Administration in coordination with the Ministry of Energy and Natural Resources. The Strategy Paper was approved by High Planning Council's Decision, dated March 17, 2004.

TEDAŞ, a state-owned electricity distribution company in Turkey was included in the privatization program by the Privatization High Council's Decision, dated April 2, 2004. In accordance with the regional groupings set forth by the Strategy Paper, TEDAS currently provides electricity distribution and retail services through 19 recently formed regional companies (excluding Menderes EDAŞ which was transferred to Aydem A.Ş. by the Ministry of Energy).

All privatization transactions of the regional distribution companies were completed during 2013 by giving concession rights to the new operators in the designated regions as follows:

Completed Transactions

Osmangazi Elektrik Dağıtım A.Ş: Dedeli Yatırım İnşaat Teknik Elektrik Dağıtım A.Ş (Eti Gümüş Group) was the highest bidder with a bid of U.S.\$485 million. The contract between the Turkish Privatization Administration and the new investor was signed on May 31, 2010 and the shares were transferred on June 2, 2010.

Çoruh Elektrik Dağıtım A.Ş operates in the provinces of Artvin, Giresun, Gümüşhane, Rize, and Trabzon. The highest bidder was Aksa Elektrik A.Ş with a bid of U.S.\$227 million. The contract between Turkish Privatization Administration and the new investor was signed on September 30, 2010.

Yeşilirmak Elektrik Dağıtım A.Ş. operates in the provinces of Samsun, Amasya, Çorum, Ordu, and Sinop. The highest bidder was Çalık Enerji with a bid of U.S.\$441.5 million. The contract with the new investor was signed on December 29, 2010.

Firat Elektrik Dağıtım A.Ş. operates in the provinces of Malatya, Elazığ, Bingöl and Tunceli. The highest bidder was Aksa Elektrik with a bid of U.S.\$230.3 million. The contract with the new investor was signed on December 31, 2010.

Çamlıbel Elektrik Dağıtım A.Ş. operates in the provinces of Sivas, Tokat and Yozgat. The highest bidder was Kolin İnşaat Sanayi ve Ticaret. A.Ş. with a bid of U.S.\$258.5 million. The contract with the new investor was signed on August 31, 2010.

Uludağ Elektrik Dağıtım A.Ş. operates in the provinces of Bursa, Balıkesir, Çanakkale and Yalova. The highest bidder was Limak İnşaat Sanayi ve Ticaret A.Ş. with a bid of U.S.\$940 million. The contract with the new investor was signed on August 31, 2010.

Trakya Elektrik Dağıtım A.Ş. operates in the provinces of Edirne, Kırklareli and Tekirdağ. The highest bidder was Elektrik Perakende Satış A.Ş. with a bid of U.S.\$622 million. The contract with the new investor was signed on December 30, 2011.

Aras Elektrik operates in the provinces of Erzincan, Bayburt, Erzurum, Kars, Ardahan, Ağrı and Iğdir. KİLER A.Ş. was the highest bidder with a bid of U.S.\$128 million. The contract with the new investor was signed on June 28, 2013.

Dicle Elektrik Dağıtım A.Ş. operates in the provinces of Diyarbakir, Şanlıurfa, Mardin, Batman, Siirt and Şırnak. Following a retendering process in 2012, the highest bidder was İşkaya-Doğu JV. The contract in the amount of U.S.\$387 million was signed on June 28, 2013.

Vangölü Elektrik Dağıtım A.Ş. operates in the provinces of Bitlis, Hakkari, Muş and Van. Following a retendering process in 2012, the highest bidder was Türkerler Construction Company with a bid of U.S.\$118 million. The contract was signed on July 26, 2013.

AYEDAS Istanbul Anatolian Side Distribution Co. operates in the Anatolian side of Istanbul. Following a retendering process in 2012, the highest bidder was EnerjiSA. The contract in the amount of U.S.\$1.2 billion was signed on July 31, 2013.

Toroslar Electricity Distribution Co. operates in the provinces of Adana, Gaziantep, Hatay, Mersin, Kilis and Osmaniye. Following a retendering process in 2012, the final tender was concluded on March 15, 2013. The highest bidder was EnerjiSA and the contract in the amount of U.S.\$1.7 billion was signed on September 30, 2013.

Boğaziçi Electricity Distribution Co. operates in the European side of Istanbul. Following a retendering process in 2012, the highest bidder was Limak-Kolin-Cengiz with a bid of U.S.\$1.96 billion. The contract was signed on May 28, 2013.

Gediz Electricity Distribution Co. operates in the provinces of İzmir and Manisa (Aegean Region). Following a retendering process in 2012, the highest bidder was Elsan, Tümaş, Karaçay with a bid of U.S.\$ 1.2 billion. The contract was signed on May 29, 2013.

Akdeniz Electricity Co. operates in the provinces of Antalya, Burdur and Isparta (West Mediterranean Region). Following a retendering process in 2012, the highest bidder was Limak-Kolin-Cengiz with a bid of U.S.\$546 million. The contract was signed on May 28, 2013.

Electric Power Generation

Run of the River hydroelectric plants:

50 small and medium size run-of-the river power generation plants with a total installed capacity of c. 140 MW were tendered under 18 portfolios in 2010. 10 portfolios were privatized through the transfer of operating rights for U.S.\$240 million in 2010. The tenders of the remaining 8 portfolios were cancelled.

17 small run-of-the-river power plants with a total installed capacity of 64 MW were tendered under 10 portfolios. The offers were received on October 5, 2012. Final negotiations of these tenders were completed on October 19, 2012. All of the portfolios were privatized for a total of U.S.\$194 million.

The tender announcement of Anamur, Bozyazi, Mut,-Derinçay, Silifke and Zeyne hydroelectric power plants was made on May 30, 2014. The highest bidder was Cem Web Ofset San. ve Tic. Ltd with a bid of U.S.\$8.9 million. The legal procedures are ongoing and, therefore, the transfer of the shares has not yet occurred.

Coal fired Power Generation Plants:

- **Seyitömer**

The tender announcement was made on November 6, 2012, final negotiations were completed on December 28, 2012. The highest bidder was Çelikler Holding with a bid of U.S.\$2.2 billion. The transfer of shares was made on June 17, 2013.

- **Kangal**

The tender announcement was made on November 6, 2012 and final negotiations were completed on February 8, 2013. The highest bidder was Konya Şeker Sanayi ve Ticaret A.Ş - Siyahkalem Mühendislik İnşaat ve Sanayii Ltd JV. with a bid of U.S.\$ 958 million. The transfer of shares was made on August 14, 2013.

- **Kemerköy, Yeniköy and Port of Kemerköy**

The tender announcements which were made in the second half of 2013 expired at the beginning of 2014. The final negotiations occurred on April 18, 2014. The highest bidder was IC İçtaş Enerji Üretim ve Ticaret A.Ş. with a bid of U.S.\$2.7 billion. The transfer of shares was made on December 23, 2014.

- **Çatalağzi**

The tender announcements which were made in the second half of 2013 expired at the beginning of 2014. The final negotiations occurred on April 29, 2014. The highest bidder was Demir Madencilik Petrol Ürünleri Enerji İnşaat Liman Gemi-Yat Yapım Turizm Nakliyat Sanayi ve Ticaret A.Ş., with a bid of U.S.\$351 million and the second highest bidder was Elsan Elektrik Gereçleri Sanayi ve Ticaret A.Ş., with a bid of U.S.\$350 million. The highest bidder has abandoned the tender, however, and the second highest bidder has been invited to proceed with the transfer procedure. The transfer of shares was made on December 22, 2014.

- **Yatağan**

The tender announcements which were made in the second half of 2013 expired at the beginning of 2014. The final negotiations occurred on June 12, 2014. The highest bidder was Elsan Elektrik Gereçleri Sanayi ve Ticaret A.Ş., with a bid of U.S.\$1.1 billion. The transfer of shares was made on December 12, 2014.

- **Orhaneli and Tunçbilek**

The tender announcements which were made in the second half of 2014 expired at the beginning of 2014. The final negotiations occurred on September 23, 2014. The highest bidder was Çelikler Taahhüt İnşaat ve Sanayi A.Ş., with a bid of U.S.\$521 million. The transfer of shares was made on June 22, 2015.

- **Soma B**

The tender announcement which was made in the second half of 2014 expired at the beginning of 2015. The final negotiations occurred on January 13, 2015. The highest bidder was Konya Şeker Sanayi ve Ticaret A.Ş., with a bid of U.S.\$685.5 million. The transfer of shares was made on June 22, 2015.

Natural gas fired Power Generation Plant

- **Hamitabat**

The tender announcement was made on August 10, 2012 and final negotiations were completed on March 6, 2013. The highest bidder was Limak Holding A.Ş with a bid of U.S.\$105 million. The transfer of shares was made on August 1, 2013.

Consultants are working on the privatization strategy of the remaining power generation plants.

D) Başkent Natural Gas Supply

The tendering of 80% shares of Başkent Natural Gas was cancelled recently as a result of insufficient bid prices obtained from potential investors. Under a law enacted in July of 2012, the remaining 20% of shares of Başkent Natural Gas held by the Municipality of Ankara was also included in retendering process, which was finalized in early 2013. The shares were transferred to Torunlar Gıda for a price of U.S.\$1,2 million as of May 31, 2013.

TÜRKİYE HALK BANKASI (HALKBANK)

In accordance with the authorization provided to Privatization High Council (“PHC”) by the Banking Law No. 5411, an initial public offering for 24.98% of shares of the bank was concluded on May 2-4, 2007 for U.S.\$1.8 billion. A second tranche of shares (23.92%) was sold through Borsa İstanbul-BİST (formerly known as İstanbul Stock Exchange) in the form of a secondary global offering in November of 2012. The proceeds from the secondary offering totaled U.S.\$2.5 billion. Privatization studies for the remaining shares continue and are conducted in collaboration with consultants.

SEA PORTS OPERATED BY TURKISH STATE RAILWAYS (TCDD) AND MARINAS

In accordance with the relevant provisions of the Privatization Law, the six sea ports, namely Mersin (privatized in 2007), İskenderun, İzmir, Bandırma, Derince and Samsun ports, operated by TCDD, were added to the privatization portfolio. The privatization of the sea ports was carried out through a transfer of operational rights. Of the privatization of the six sea ports,

- the retender of the İzmir cruise port expired on September 7, 2012. However, due to a lack of sufficient bids, the tender was cancelled again. Technical studies to retender the port are continuing.
- privatization of the Samsun port was completed on March 31, 2010. The Samsun port will be owned by Ceynak Logistics for a period of 36 years for a price of U.S.\$125.2 million.
- the transfer of operating rights of the Bandırma port to the Çelebi Joint Group for a period of 36 years was finalized on June 8, 2010 for a price of U.S.\$175 million.
- First tender of Derince port was cancelled in 2010. Following the resolution of some technical problems, the re-tendering process concluded on June 5, 2014. The highest bidder was Safi Kati Yakıt Sanayi ve Ticaret A.Ş., with a bid of U.S.\$543 million. The transfer of shares was made on February 25, 2015.
- The retendering of İskenderun port under TOR was finalized on September 28, 2010. The highest bidder was Limak Yatırım Enerji Üretim A.Ş. with a bid of U.S.\$372 million, for a period of 36 years. The transfer of shares was made on December 30, 2011.

Fenerbahçe-Kalamış Marina is located on the Anatolian side of İstanbul and is the most significant and important marina in Turkey. The tender was finalized on May 23, 2014. The highest bidder was Tek-Art Kalamış ve Fenerbahçe Marmara Turizm Tesisleri A.Ş., with a bid of U.S.\$664 million. The bidder, however, has abandoned the tender having encountered legal problems with a local municipality. Currently, the second highest bidder is invited to proceed with the transfer procedures.

THE PORT OF SALIPAZARI OPERATED BY TURKISH MARITIME LINES

The port of Salipazari, operated by Turkish Maritime Lines, and its vicinity are planned to be converted to a cruiser port. In addition to a cruiser port, the project contemplates construction of shopping centers, boutique hotels, entertainment units and cultural centers. The tender announcement, which was made in 2012, expired as of April 30, 2013. The highest bidder was Doğu Holding with a bid of U.S.\$702 million. The contract was signed on February 14, 2014.

TÜRKŞEKER (TURKISH SUGAR MANUFACTURING COMPANY.)

In accordance with the decision of the PHC, dated October 7, 2007, 24 sugar manufacturing companies and their related assets were classified into 6 groups.

The companies are grouped as follows:

Portfolio A: Kars, Erciş, Ağrı, Muş and Erzurum

Portfolio B: Elazığ, Malatya, Erzincan, and Elbistan

Portfolio C: Kastamonu, Kırşehir, Turhal, Yozgat, Çorum and Çarşamba

Portfolio D: Bor, Ereğli and Ilgin

Portfolio E: Uşak, Alpullu, Burdur and Afyon

Portfolio F: Eskişehir and Ankara

The tender of the Companies in Groups B and C was finalized on November 29, 2011. However, the tender was cancelled after some time. No PHC decision has been rendered thus far to determine the future outcome of the retender process.

TOLL MOTORWAYS AND BOSPHOROUS BRIDGES

Privatization studies of toll motorways, two Bosphorous bridges, the beltways of Ankara and İzmir and the service units operated by the Turkish Highways General Directorate are almost complete. The strategy report is ready and various legal modifications have been made. The tender announcement, which was made on August 25, 2011, expired on October 31, 2012. The tender was cancelled as a result of insufficient bid price offers. A new privatization strategy is underway.

The names of the toll motorways and Bosphorous bridges subject to privatization are set forth below:

- Edirne-İstanbul-Ankara
- Pozanti-Tarsus-Mersin
- Tarsus-Adana-Gaziantep
- Toprakkale-İskenderun
- Gaziantep-Şanlıurfa
- İzmir-Çeşme

- İzmir-Aydın
- Ankara and İzmir beltways
- Fatih Sultan Mehmet and Bosphorous Bridges

TÜRK TELEKOM

Following the privatization of 55% of the shares of Türk Telekom in 2005, an additional 15% of shares have been privatized through an IPO on May 7-9, 2008. A total of U.S.\$1.9 billion was raised from the IPO. The strategy for the sale of the remaining shares of the Company held by the Turkish Treasury has not yet been determined. Turkish Treasury holds 30% of the shares.

NATIONAL LOTTERY

In accordance with PHC decision, the privatization of national lottery operation will only include the license that transfers the rights to plan and organize the games of chance and execute draws and install systems of games of chance and operation activities. Any asset and liability of National Lottery Administration will not be subject to privatization. The license will be granted to the bidder in the form of a profit sharing method and the duration of the license will be 10 years. The license includes passive drawing game, instant scratch card game, lotto and super lotto, numeric games and new games to be introduced. The tender announcement which was made in 2013 was finalized in first quarter of 2014. The final negotiations with the investors occurred on July 15, 2014. The highest bidder is Net Şans-Hitay JV with a bid of U.S.\$ 2.8 billion. The bidder has abandoned the tender, however, and the second highest bidder has been invited to proceed with the transfer procedure.

DOĞUSAN A.Ş

The company is engaged primarily in the manufacturing of concrete perlite tiles and is located in Erzincan, one of the eastern provinces of Turkey. 43.9% of the Company's shares are traded on Borsa Istanbul (formerly known as the Istanbul Stock Exchange). The remaining 56.1% of the Company's shares are in the portfolio of Turkish Privatization Administration. PA has attempted 4 tenders. However, due to unsatisfactory tender prices and the inability of the investors to fulfill their purchase obligations, none of the tenders were completed. No PHC decision has been rendered thus far which would determine the future of the privatization process of the company.

ERZURUM PALANDÖKEN AND KONAKLI SKİİ RESORTS

The ski resorts of Erzurum Palandöken and Konakli were constructed for 2011 Universiad Winter Games. These facilities meet international accredited winter sport standards in Turkey, and are located at an elevation of on average over 2,000 m. These privatization assets are comprised of real property, plant and equipment, skiing slopes, mechanical installations (lifts, gondola lift, telesiege) and artificial snow plowing installations. The technical studies have been completed and tender announcements to privatize the resorts under the concession method for 49 years were made on May 2, 2015 and expired on July 30, 2015.

HALK SİGORTA A.Ş (INSURANCE) & HALK HAYAT VE EMEKLİLİK (LIFE&PENSION)

The technical studies of insurance, life and pension companies of Halkbank were completed in 2014. The tender announcements which were made at the beginning of 2015 will expire on September 15, 2015.

EXTRA-BUDGETARY FUNDS

In 1984, due to increasing budgetary restrictions, the Government established a number of Extra Budgetary Funds (“EBFs”) with the objective of financing the implementation and administration of specific Government programs, such as incentive programs for exports and investment, social and housing programs, and public investment projects.

In 2000 and 2001, a fundamental shift in the structure of EBFs was mandated in order to increase budget coverage and promote fiscal transparency. Currently, there are only five EBFs remaining. Non-consolidated EBFs of continued importance to the Turkish economy are the Privatization Fund, which oversees the privatization of SEEs, the Social Aid and Solidarity Fund, which assists the disabled and poor, the Defense Industries Support Fund, which develops military manufacturing capabilities, and the Support Price Stabilization Fund, which channels certain export and import duties into the subsidy of fertilizers.

The following table presents, for the years indicated, the operating balance and financing of four EBFs, including the Privatization Fund, the Defense Industries Support Fund, the Social Aid and Solidarity Fund and the Support Price Stabilization Fund, for the 2010-2014 period. Since 2002, the consolidated EBF’s balance included only Privatization, Defense, Solidarity and Support Price Stabilization Funds.

Table 53

Extra Budgetary Funds (Million TL)

	2010	2011	2012	2013	2014
Revenues	4,697	5,763	10,997	7,384	8,577
Expenditures	4,241	4,522	4,524	9,990	10,077
Surplus (Deficit)	456	1,241	6,473	-2,607	-1,500
Financing	-456	-1,241	-6,473	2,607	1,500

Source: Ministry of Development

LOCAL GOVERNMENT

The operations of local authorities expanded rapidly following the Government’s 1984 decision to decentralize some responsibilities and to transfer substantial amounts of tax keep revenues to local authorities. Local authorities cover municipalities, special provincial administrations, municipally owned utilities, municipal unions and İlbank operations. In 2010, total expenditures by local authorities increased to TL 37,162 million and the surplus was TL 1,021 million. In 2011, total expenditures by local authorities increased 18.49% to TL 44,033 million and the surplus was TL 2,525 million. In 2012, total expenditures by local authorities increased 17.21% to TL 51,609 million and the surplus was TL 137 million. In 2013, pre-local election year, total expenditures by local authorities increased 23.48% to TL 63,622 million. In 2014, total expenditures by local authorities increased 8.42% to TL 68,980 million and the deficit was TL 53 billion.

The following table presents the operating balance of the local authorities for the years indicated:

Table 54

	Local Authorities (Million TL)				
	2010	2011	2012	2013	2014(1)
Revenues	38,183	46,558	51,745	61,328	68,927
Expenditures	37,162	44,033	51,525	63,622	68,980
Surplus (Deficit)	1,021	2,525	220	-2,293	-53

Source: Ministry of Development

(1) Provisional

PUBLIC SECTOR FIXED INVESTMENT

The following table summarizes public sector fixed investment, including that of the SOEs and the EBFs, by economic sector for the years indicated:

Table 55

Public Sector Fixed Investment

	2010	2011	2012	2013	2014(1)
		(percentage of total)			
Agriculture	9.8	9.8	10.7	9.6	8.7
Mining	1.9	2.3	2.2	1.5	2.2
Manufacturing	0.8	0.7	0.8	0.9	0.9
Energy	6.5	5.7	6.0	4.7	5.4
Transport and communication	43.5	41.3	38.1	38.6	37.0
Tourism	0.5	0.6	0.7	0.7	0.5
Housing	1.5	1.7	1.3	1.2	1.0
Education	10.4	12.2	14.2	14.4	15.8
Health	4.8	4.9	5.3	5.0	5.5
Other Services	20.3	20.8	20.8	23.3	23.1
Total	100.0	100.0	100.0	100.0	100.0
Total (millions of TL)	47,003	53,247	60,108	78,165	85,355

(1) Provisional estimate.

(2) At current prices.

Source: Ministry of Development.

PUBLIC SECTOR BORROWING REQUIREMENT

In 2010, the central government budget deficit was TL 40,081 million, representing 3.65% of GDP. Total PSBR was realized as 2.36% of GDP in 2010. In 2011, the central government budget deficit was TL 17,783 million, representing 1.37% of GDP. Total PSBR was realized as 0.14% of GDP in 2011. In 2012, central government budget deficit was TL 29,412 million, representing 0.08% of GDP. Total PSBR was realized as 0.98% of GDP in 2012. In 2013, the consolidated budget deficit was TL 18,543 million, representing 1.18% of GDP. Total PSBR was recorded as 0.46% of GDP in 2013. In 2014, the consolidated budget deficit was recorded as TL 22,666 million, representing 1.30% of GDP. Total PSBR is expected to be 0.98% of GDP in 2014.

In 2010, total public debt stock (gross) as a percentage of GDP decreased to 45.2%. The net debt of the public sector increased to 28.9% in 2010. In 2011, total public debt stock (gross) as a percentage of GDP decreased to 42.1%. The net debt of the public sector decreased to 22.4% in 2011. In 2012, total public debt stock (gross) as a percentage of

GDP declined to 39.7%. The net debt of the public sector declined to 17% in 2012. In 2013, total public debt stock (gross) as a percentage of GDP slightly increased to 39.8%. The net debt of the public sector declined to 12.6% in 2013. In 2014, total public debt stock (gross) as a percentage of GDP declined to 36.9%. The net debt of the public sector declined to 10.6% in 2014.

The following table sets forth information as to Turkey's public sector borrowing requirement for the years indicated:

Table 56

Public Sector Borrowing Requirement (as a percentage of GDP)

	2010	2011	2012	2013	2014(1)
Consolidated budget	3.65	1.37	2.08	1.18	1.39
Local administrations	-0.09	-0.19	-0.02	0.15	0.00
SSI, UIF, EBFs and Revolving Funds	-0.55	-0.82	-1.03	-0.59	-0.61
Social Security Institutions (SSI)	-0.03	-0.02	0.01	0.33	0.36
Unemployment Insurance Fund (UIF)	-0.35	-0.58	-0.54	-0.59	-0.59
Revolving Funds	-0.13	-0.12	-0.04	-0.12	-0.04
EBFs	-0.04	-0.10	-0.46	0.17	0.02
SOEs	-0.64	-0.22	-0.05	-0.29	0.21
SOEs not under privatization	-0.73	-0.17	-0.05	-0.09	0.43
SOEs under privatization	0.09	-0.05	0.00	-0.20	-0.22
Total	2.36	0.14	0.98	0.46	0.98

Source: Ministry of Development

(1) Provisional estimate. (Medium Term Program)

DEBT

GENERAL

In Turkey, the Treasury conducts domestic and external borrowing operations and issues government securities through direct sales, TAP, public offerings and auctions. A TAP sale is non-auction borrowing method used by the Government to enhance market access pursuant to which the Treasury is permitted to reissue bills or bonds of a specific amount and maturity at any time. The Treasury issues various borrowing instruments, such as zero coupon securities, inflation, revenue and foreign exchange-indexed securities, foreign exchange-denominated securities, lease certificates, Government Bonds with fixed coupon payments and floating rate notes.

The Treasury issues two kinds of domestic borrowing securities: (1) Treasury Bills, which have a maturity shorter than one year and (2) Government Bonds, which have a maturity longer than one year. These are considered “marketable” instruments. Auctions are the primary means of borrowing in domestic markets and fixed rate government bonds are the primary external borrowing instruments utilized by Turkey.

Turkey has not defaulted on any principal or interest payment on any external debt represented by bonds issued in public international markets since it began issuing such bonds in 1988.

The total gross outstanding external debt of Turkey was approximately U.S.\$388.3 billion at the end of the first quarter of 2014, approximately U.S.\$402.2 billion at the end of the second quarter of 2014, approximately U.S.\$397.7 billion at the end of the third quarter of 2014 and approximately U.S.\$402.4 billion at the end of the fourth quarter of 2014.

Turkey issued the following external debt in 2014, and as of the date of this Annual Report in 2015:

- U.S.\$2.5 billion of global notes on January 29, 2014, which mature on March 22, 2024 and have a 5.750% annual interest rate.
- U.S.\$1.5 billion of global notes on February 19, 2014, which mature on February 17, 2045 and have a 6.625% annual interest rate.
- €1.0 billion of global notes on April 11, 2014, which mature on April 11, 2023 and have a 4.125% annual interest rate.
- ¥100 billion of Samurai bonds on September 25, 2014, under the Japan Bank for International Cooperation guarantee, which mature on September 25, 2024 and have a 1.050% annual interest rate.
- U.S.\$1.0 billion of lease certificates on November 25, 2014, which mature on November 25, 2024 and have a 4.489% annual lease rate.
- U.S.\$1.5 billion of global notes on January 13, 2015, which mature on April 16, 2043 and have a 4.875% annual interest rate.
- U.S.\$1.5 billion of global notes on April 14, 2015, which mature on April 14, 2026 and have a 4.250% annual interest rate.

The aggregate amount of scheduled repayment of principal and interest of external debt of Turkey as of April 30, 2015, was U.S.\$65 billion, U.S.\$52.1 billion, U.S.\$43.9 billion and U.S.\$36.5 billion for 2015 (May-December), 2016, 2017, and 2018, respectively.

Turkey's central government domestic debt was approximately TL 414.6 billion on December 31, 2014, compared with TL 403.0 billion on December 31, 2013. These numbers represent a 2.0% decrease (from 25.7 in 2013 to 23.7% in 2014) in the ratio of domestic debt to GDP between two years.

Turkey's gross external debt was approximately U.S.\$402.4 billion as of December 31, 2014, compared to U.S.\$389.1 billion as of December 31, 2013.

On October 31, 2013, the Republic announced its 2014 financing program. According to the 2014 financing program, the Republic expects to repay (including principal and interest) a total of approximately TL 176.7 billion of debt in 2014, of which approximately TL 156.5 billion is domestic debt and approximately TL 20.2 billion is external debt. The total borrowing target for the Republic in 2014 is approximately TL 149.3 billion of which approximately TL134.6 billion would consist of domestic borrowing and approximately TL 14.8 billion would consist of external borrowings. Other sources of funds in 2014 will consist of cash primary surplus, privatization revenues, the revenues from 2-B land sales, transfers from the Unemployment Insurance Fund and the Savings Deposit Insurance Fund (SDIF), receipts from on-lending and guaranteed debt and use of cash account (which are targeted to yield TL 27.4 billion in total in 2014).

DOMESTIC DEBT

Within the framework of the government's economic program, aimed at sustainable growth, continued disinflation and a viable debt position, there has been significant improvement in both the level and structure of the Treasury's domestic debt in recent years, resulting from strong fiscal performance, strategic benchmarking policy and improving market sentiment. The ratio of domestic debt to GDP, which was 32.1% at the end of 2010 has progressively declined, to 25.8% as of the end of 2013 and to 23.7% as of the end of 2014.

Several key reforms have been implemented in the area of debt management during the last several years:

Due to the increased confidence in both domestic and international capital markets and the downward trend in inflation, there has been an increase in foreign investors' TL-denominated debt issuances. As a result, the share of foreign investors in total domestic debt increased from 12.5% at the end of 2010 to 21.8% at the end of 2014. These developments have laid the ground for the Treasury to increase the maturity of its domestic debt, with issuances of five and seven-year Floating Rate Notes ("FRNs") and fixed couponed Government Bonds. In 2010, Treasury began to issue ten-year fixed couponed and CPI Indexed Government Bonds. All of the outstanding foreign currency indexed and denominated debt securities were redeemed and thereby the share of FX liabilities in total debt decreased from 1.6% at the end of 2010 to 0% at the end of 2014.

To further enhance the liquidity of domestic debt, the primary dealership system for government securities has been in place since May 2000, however during the May 2001 - September 2002 period, it was suspended due to negative financial conditions. Currently, the primary dealership system for 2014 is in effect. In the last few years, the system contributed to the efficiency in both the primary and secondary market for government securities. The system provides greater depth and reduces volatility in the secondary market and helps to reduce roll-over risk. The primary dealership system aims to create a highly liquid, transparent, and dependable secondary market, which in turn is expected to lead to decreased costs in the primary market.

Within the context of debt management policy, for attaining reasonable risk level and reducing borrowing cost, strategic benchmark implementation was maintained in 2013 similar to the previous years. With the implementation of strategic benchmark strategy, benchmark government bonds were reopened on a regular basis in a period of three months. In this way, by reducing the number of securities in the market, liquidity of securities was increased. For this purpose, TL denominated 2, 5 and 10 year fixed rate coupon bonds have been issued on a regular basis in line with international practice since the end of 2011.

In line with the objectives of diversifying borrowing instruments, broadening the investor base and lengthening borrowing maturities, CPI Indexed Government Bonds have continued to be issued.

With the aim of increasing domestic savings, diversifying borrowing instruments and broadening the investor base, lease certificates were issued for the first time both in domestic and international markets in 2012. Specifically, the issuance of lease certificates raised U.S.\$1.5 billion from the international markets in September 2012 and TL 4.9 billion from the domestic markets in October 2013. In order to issue these lease certificates, the Republic enters into transactions with Hazine Müstesarlığı Varlık Kiralama Anonim Sirketi, an asset leasing company incorporated in Turkey in accordance with Article 7/A of Law Number 4749 (the "Issuer"), which in turn issues these lease certificates from time to time in the domestic and global markets. On April 3, 2013, the parliamentary members of the main opposition party filed a constitutional objection with the Turkish Constitutional Court (the "Court") challenging the legislation which allows the transactions between the Republic and the Issuer to be exempted from certain formal requirements. On November 1, 2013, the Court announced its decision to reject the constitutional objection.

Average maturity was increased in the year 2013. The average maturity of cash borrowing was 44 months in 2010, 45 months in 2011, 61 months in 2012, 74 months in 2013 and 68 months in 2014. The cost of domestic public debt in local currency (including discounted treasury bills/government bonds and fixed rate government bonds) on a compounded basis was annually realized as 8.5%, 8.7%, 8.8%, 7.6% and 9.7% in the period of 2010-2014.

There has also been improvement in the structure of domestic debt. As a result of strategic benchmarks, which have been set in accordance with debt strategies based on risk analysis, the portion of foreign currency linked or denominated debt in the total domestic debt stock has consistently decreased and was reduced to 0% in February 2012, compared to 1.6% in 2010. The share of fixed interest rate instruments, as a proportion of the total domestic debt, increased to 56.6% in 2014 from 49.8% in 2010. On the other hand, there were no new issuances of non-cash debt securities in 2014. Therefore, the ratio of non-cash debt securities to total domestic debt declined to 0.2% at the end of 2014 from the level of 0.7% at the end of 2010.

The Treasury aims to increase maturity of borrowings in the upcoming years, while pursuing policies to mitigate market and liquidity risks and to enhance liquidity and efficiency in both the primary and secondary markets.

These, together with continued strong fiscal policies, are intended to ensure a sustainable path for domestic debt. The following tables show the domestic debt securities auctioned in years 2009-2013:

Treasury Auctions

Table 57

Auctions for zero coupon treasury notes in 2010:

	Auction Date	Value Date	Maturity Date	Average Interest Rate (%)			Sales Amount (Inc. Switching)		
	(dd.mm.yyyy)	(dd.mm.yyyy)	(dd.mm.yyyy)	Term	Simple	Compound	Net Bid Amount	Nominal	Net
								(in thousands of TL)	
January									
6 Month T. Bill (182 days) (r)	11.01.2010	13.01.2010	14.07.2010	3.62	7.23	7.36	6,590,496	3,024,543	2,919,000
15 Month G. Bond (448 days)	18.01.2010	20.01.2010	13.04.2011	10.10	8.21	8.13	4,681,852	2,649,825	2,406,731
22 Month G. Bond (665 days)	19.01.2010	20.01.2010	16.11.2011	16.00	8.76	8.46	3,470,351	3,519,662	3,034,233
February									
14 Month G. Bond (427 days) (r-o)	09.02.2010	10.02.2010	13.04.2011	9.58	8.17	8.11	2,721,064	3,640,381	3,322,107
6 Month T. Bill (182 days) (r)	15.02.2010	17.02.2010	18.08.2010	3.54	7.08	7.20	4,383,605	3,174,505	3,066,000
21 Month G. Bond (637 days) (r-o)	16.02.2010	17.02.2010	16.11.2011	15.87	9.07	8.78	1,767,357	2,908,571	2,510,159
March									
21 Month G. Bond (623 days) (r-o)	02.03.2010	03.03.2010	16.11.2011	15.81	9.24	8.95	3,338,839	3,338,839	3,327,710
6 Month T. Bill (182 days) (r)	08.03.2010	10.03.2010	08.09.2010	3.53	7.07	7.19	3,195,435	3,195,435	2,033,000
April									
14 Month G. Bond (420 days)	12.04.2010	14.04.2010	08.06.2011	9.65	8.36	8.31	2,221,708	3,824,327	3,487,784
22 Month G. Bond (651 days)	13.04.2010	14.04.2010	25.01.2012	16.94	9.47	9.14	1,845,941	3,587,035	3,067,350
May									
21 Month G. Bond (630 days) (r-o)	04.05.2010	05.05.2010	25.01.2012	17.03	9.84	9.51	3,089,273	3,632,510	3,103,945
June									
19 Month G. Bond (581 days) (r-o)	22.06.2010	23.06.2010	25.01.2012	14.40	9.02	8.79	3,444,672	3,999,853	3,496,273
11 Month T. Bill (343 days) (r-o)	29.06.2010	30.06.2010	08.06.2011	7.89	8.38	8.39	1,404,028	1,275,825	1,182,487

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate (%)			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount	Nominal	Net
								(in thousands of TL)	
July									
6 Month T. Bill (182 days) (r)	12.07.2010	14.07.2010	12.01.2011	3.90	7.79	7.94	3,016,837	1,802,605	1,735,000
21 Month G. Bond (651 days)	13.07.2010	14.07.2010	25.04.2012	15.73	8.79	8.51	5,571,687	5,403,642	4,669,291
12 Month G. Bond (357 days)	27.07.2010	28.07.2010	20.07.2011	7.64	7.79	7.80	4,558,638	1,472,323	1,367,834
August									
11 Month T. Bill (336 days) (r-o)	17.08.2010	17.08.2010	20.07.2011	7.17	7.77	7.79	7,210,885	2,819,194	2,630,510
20 Month G. Bond (616 days) (r-o)	17.08.2010	17.08.2010	25.04.2012	14.03	8.29	8.07	3,248,027	5,013,674	4,396,641
September									
6 Month T. Bill (182 days) (r)	06.09.2010	08.09.2010	09.03.2011	3.65	7.30	7.43	5,554,906	2,010,808	1,940,000
20 Month G. Bond (595 days) (r-o)	07.09.2010	08.09.2010	25.04.2012	13.63	8.34	8.13	5,988,360	4,363,255	3,839,786
12 Month G. Bond (378 days)	27.09.2010	29.09.2010	12.10.2011	7.83	7.55	7.53	7,261,133	2,544,402	2,359,548
October									
22 Month G. Bond (651 days)	26.10.2010	27.10.2010	08.08.2012	13.90	7.78	7.78	5,834,563	3,806,288	3,341,645
November									
21 Month G. Bond (644 days) (r-o)	02.11.2010	03.11.2010	08.08.2012	13.84	7.82	7.60	2,653,640	5,127,836	4,504,598
11 Month T. Bill (322 days) (r-o)	23.11.2010	24.11.2010	12.10.2011	6.45	7.29	7.32	583,539	711,887	668,767
December									
20 Month G. Bond (609 days) (r-o)	07.12.2010	08.12.2010	08.08.2012	13.18	7.88	7.68	1,899,985	4,477,989	3,956,390
2010 TOTAL							95,536,822	81,325,215	72,366,790

Source: UT.

Table 58

Auctions for zero coupon treasury notes in 2011:

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate (%)			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount (in thousands of Turkish Lira)	Nominal	Net
January									
22 Month G. Bond(665 days)	10.01.2011	12.01.2011	07.11.2012	13.11	7.17	6.98	5,603,341	7,778,137	6,876,743
14 Month G. Bond (420 days)	17.01.2011	19.01.2011	14.03.2012	8.58	7.44	7.39	2,555,415	2,374,093	2,186,491
February									
21 Month G. Bond (644 days) (r-o)	01.02.2011	02.02.2011	07.11.2012	14.78	8.35	8.10	6,096,786	6,873,564	5,988,514
March									
6 Month T. Bill (182 days) (R)	07.03.2011	09.03.2011	07.09.2011	4.06	8.12	8.28	1,489,795	754,426	725,000
20 Month G. Bond (609 days) (r-o)	08.03.2011	09.03.2011	07.11.2012	15.53	9.28	9.01	2,917,840	3,645,944	3,155,819
April									
22 Month G. Bond (679 days)	12.04.2011	13.04.2011	20.02.2013	17.19	9.21	8.88	5,000,485	4,550,107	3,882,734
May									
21 Month G. Bond (651 days) (r-o)	10.05.2011	11.05.2011	20.02.2013	15.33	8.57	8.30	2,889,672	4,453,720	3,861,648

June									
21 Month G. Bond (623 days)									
(r-o)	07.06.2011	08.06.2011	20.02.2013	15.81	9.24	8.95	4,128,414	3,244,716	2,801,653
July									
22 Month G. Bond (665 days)	19.07.2011	20.07.2011	15.05.2013	16.68	9.13	8.81	4,951,950	3,547,355	3,040,190

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate (%)			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount (in thousands of Turkish Lira)	Nominal	Net
August									
21 Month G. Bond (651 days) (r-o)	02.08.2011	03.08.2011	15.05.2013	16.14	9.02	8.73	5,061,320	7,530,769	6,484,372
September									
20 Month G. Bond (616 days) (r-o)	06.09.2011	07.09.2011	15.05.2013	13.37	7.90	7.70	1,820,957	3,908,505	3,447,653
October									
21 Month G. Bond (644 days)	11.10.2011	12.10.2011	17.07.2013	15.18	8.58	8.32	4,220,860	3,480,116	3,021,539
November									
20 Month G. Bond (609 days) (r-o)	15.11.2011	16.11.2011	17.07.2013	18.34	10.96	10.59	2,851,972	5,773,947	4,879,098
2011 TOTAL							49,588,806	57,915,400	50,351,453

Source: UT.

Table 59

Auctions for zero coupon treasury notes in 2012:

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate (%)			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount (in thousands of Turkish Lira)	Nominal	Net
January									
14 Month G. Bond(427 days)	17.01.2012	18.01.2012	20.03.2013	12.95	11.04	10.94	6,122,636	4,550,251	4,028,470
February									
13 Month G. Bond (399 days) (r-o)	13.02.2012	15.02.2012	20.03.2013	10.31	10.99	10.43	3,395,546	3,057,592	2,771,093
April									
11 Month G. Bond (329 days) (r-o)	24.04.2012	25.04.2012	20.03.2013	8.94	9.90	9.94	1,557,437	1,016,338	932,896
August									
13 Month G. Bond (392 days)	14.08.2012	15.08.2012	11.09.2013	8.72	8.10	8.07	4,712,537	3,197,306	2,940,876
September									
12 Month G. Bond (350 days) (r-o)	25.09.2012	26.09.2012	11.09.2013	6.92	7.19	7.21	2,248,195	1,476,214	1,380,713
November									
10 Month G. Bond (294 days) (r-o)	20.11.2012	21.11.2012	11.09.2013	4.74	5.87	5.90	2,443,061	1,435,480	1,370,539
2012 TOTAL							20,479,412	14,733,181	13,424,587

Source: UT.

Table 60

Auctions for zero coupon treasury notes in 2013:

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate (%)			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount (in thousands of Turkish Lira)	Nominal	Net
January									
15 Month G. Bond (448 days)	15.01.2013	16.01.2013	09.04.2014	7.68	6.24	6.20	4,031,774	1,559,912	1,448,656
February									
14 Month G. Bond (420 days) (r-o)	12.02.2013	13.02.2013	09.04.2014	6.66	5.77	5.75	2,391,198	1,377,298	1,291,286

							Sales Amount (Inc. Switching)		
	Auction Date	Value Date	Maturity Date	Average Interest Rate (%)			Net Bid Amount	Nominal	Net
	(dd.mm.yyyy)	(dd.mm.yyyy)	(dd.mm.yyyy)	Term	Simple	Compound	(in thousands of Turkish Lira)		
March									
15 Month G. Bond (455 days) (r-o)	12.03.2013	13.03.2013	11.06.2014	7.19	5.75	5.71	2,300,587	1,728,037	1,612,201
April									
14 Month G. Bond (434 days) (r-o)	02.04.2013	03.04.2013	11.06.2014	7.92	6.64	6.60	1,884,112	1,454,837	1,348,065
May									
15 Month G. Bond (441 days)	21.05.2013	22.05.2013	06.08.2014	6.18	5.10	5.07	2,080,849	748,685	705,103
June									
142 Month G. Bond (413 days) (r-o)	18.06.2013	19.06.2013	06.08.2014	7.71	6.80	6.76	2,589,807	1,406,231	1,305,583
July									
12 Month G. Bond (378 days) (r-o)	23.07.2013	24.07.2013	06.08.2014	8.84	8.51	8.50	843,747	482,530	443,347
August									
15 Month G. Bond (448 days)	27.08.2013	28.08.2013	19.11.2014	12.42	10.09	9.98	1,609,903	1,374,071	1,222,238
October									
13 Month G. Bond (392 days)	22.10.2013	23.10.2013	19.11.2014	8.26	7.67	7.65	1,232,811	664,328	613,626
November									
13 Month G. Bond (371 days) (r-o)	12.11.2013	13.11.2013	19.11.2014	9.05	8.88	8.87	1,193,545	1,172,112	1,074,816
2013 TOTAL							20,158,333	11,968,040	11,064,922

Source: UT.

Table 61

Auctions for zero coupon treasury notes in 2014:

		Auction Date ¹	Value Date ¹	Maturity Date ¹	Average Interest Rate (%)			Net Bid Amount ²	Sales Amount (Inc. Switching) ²	
					Term	Simple	Compound		Nominal	Net
January	14 Month G. Bond (427 days)	21.01.2014	22.01.2014	25.03.2015	12.10	10.31	10.22	1,595,006	1,618,265	1,443,636
February	13 Month G. Bond (399 days) (r-o)	18.02.2014	19.02.2014	25.03.2015	12.33	11.25	11.19	2,424,094	1,254,300	1,116,573
March	16 Month G. Bond (483 days)	18.03.2014	19.03.2014	15.07.2015	15.32	11.55	11.34	1,821,922	718,792	623,286
April	15 Month G. Bond (462 days) (r-o)	08.04.2014	09.04.2014	15.07.2015	12.80	10.09	9.96	1,864,343	1,063,652	942,915
May	14 Month G. Bond (413 days) (r-o)	26.05.2014	28.05.2014	15.07.2015	9.96	8.78	8.72	2,637,550	1,352,005	1,229,588
June	14 Month G. Bond (434 days)	10.06.2014	11.06.2014	19.08.2015	10.06	8.44	8.37	1,660,498	1,059,164	962,337
July	13 Month G. Bond (392 days) (r-o)	22.07.2014	23.07.2014	19.08.2015	9.00	8.36	8.33	1,088,151	856,475	785,732
August	12 Month G. Bond (371 days) (r-o)	12.08.2014	13.08.2014	19.08.2015	9.75	9.56	9.55	1,492,025	1,170,861	1,066,886
September	14 Month G. Bond (427 days)	16.09.2014	17.09.2014	18.11.2015	10.91	9.30	9.22	2,458,774	1,665,167	1,501,432
October	13 Month G. Bond (392 days) (r-o)	21.10.2014	22.10.2014	18.11.2015	9.51	8.83	8.80	1,893,339	1,075,862	982,422
December	12 Month G. Bond (364 days)	16.12.2014	17.12.2014	16.12.2015	8.81	8.81	8.81	1,484,183	1,186,146	1,090,081

1. dd.mm.yyyy

2. (in thousands of Turkish Lira)

Source: UT.

The following tables present the various sales and auctions of securities conducted by Turkey in 2010-2014:

Table 62

2010 Sales — Direct Sales and Tap Sales and Public Offers (2)

	<u>Description</u>	<u>Issue Date</u> (dd.mm.yyyy)	<u>Settlement Date</u> (dd.mm.yyyy)	<u>Maturity</u>	<u>Net Amount (1)</u>
February					
Revenue Indexed Bond - TL	Semiannually couponed	24.02.2010	22.02.2012	2 years	944
August					
Revenue Indexed Bond - TL	Semiannually couponed	11.08.2010	08.08.2012	2 years	479.5

(1) Million USD, Million TL

(2) There were no tap sales and public offers in 2010.

Source: UT

Table 63

2011 Sales — Direct Sales and Tap Sales and Public Offers (2)

	<u>Description</u>	<u>Issue Date</u> (dd.mm.yyyy)	<u>Settlement Date</u> (dd.mm.yyyy)	<u>Maturity</u>	<u>Net Amount (1)</u>
February					
Revenue Indexed Bond - TL	Semiannually couponed	23.02.2011	20.02.2013	2 years	475.8
August					
Revenue Indexed Bond - TL	Semiannually couponed	24.08.2011	21.08.2013	2 years	378.3

(1) Million USD, Million TL

(2) There were no tap sales and public offers in 2011.

Source: UT

Table 64

2012 Sales — Direct Sales and Tap Sales and Public Offers (2)

	<u>Description</u>	<u>Issue Date</u> (dd.mm.yyyy)	<u>Settlement Date</u> (dd.mm.yyyy)	<u>Maturity</u>	<u>Net Amount (1)</u>
February					
Revenue Indexed Bond - TL	Semiannually couponed	22.02.2012	19.02.2014	2 years	109.2
October					
Lease Certificate - TL	Semiannually couponed	03.10.2012	01.10.2014	2 years	1,624.5

(1) Million USD, Million TL

(2) There were no tap sales and public offers in 2012.

Source: UT

Table 65

2013 Sales — Direct Sales (1)

	<u>Description</u>	<u>Issue Date</u> (dd.mm.yyyy)	<u>Settlement Date</u> (dd.mm.yyyy)	<u>Maturity</u>	<u>Net Amount (1)</u>
February					

Lease Certificate - TL	Semiannually couponed	19.02.2013	18.02.2015	2 years	1,515.3
August					
Lease Certificate - TL	Semiannually couponed	20.08.2013	19.08.2015	2 years	1,817.3

(1) Million USD, Million TL

Source: UT

Table 66

2014 Sales — Direct Sales (1)

	Description	Issue Date (dd.mm.yyyy)	Settlement Date (dd.mm.yyyy)	Maturity	Net Amount (1)
February					
Lease Certificate - TL	Semiannually couponed	19.02.2014	17.02.2016	2 years	1,332.8
August					
Lease Certificate - TL	Semiannually couponed	01.10.2014	28.09.2016	2 years	1,839.9

(1) Million USD, Million TL

Source: UT

Table 67

Fixed Coupon TL Denominated Treasury Auctions in 2010

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount	Nominal	Net
							(thousand TL)	(thousand TL)	(thousand TL)
3 Year Quarterly Couponed G. Bond	12.01.2010	13.01.2010	09.01.2013	2.32%	9.29%	9.62%	4,989,049	4,971,618	5,063,134
10 Year Semi Annual Couponed G. Bond	26.01.2010	27.01.2010	15.01.2020	5.47%	10.94%	11.24%	1,191,277	1,073,981	1,045,577
3 Year Quarterly Couponed G. Bond	09.02.2010	10.02.2010	09.01.2013	2.36%	9.43%	9.77%	2,972,557	3,497,637	3,574,594
4 Year Semi Annual Couponed G. Bond	09.03.2010	10.03.2010	06.08.2014	5.27%	10.54%	10.82%	995,969	1,099,381	1,125,974
10 Year Semi Annual Couponed G. Bond	06.04.2010	07.04.2010	15.01.2020	5.33%	10.65%	10.93%	488,328	442,172	446,958
3 Year Quarterly Couponed G. Bond	12.04.2010	14.04.2010	10.04.2013	2.35%	9.42%	9.76%	1,091,611	2,191,422	2,224,334
3 Year Quarterly Couponed G. Bond	03.05.2010	05.05.2010	10.04.2013	2.47%	9.88%	10.26%	1,172,993	876,970	884,554
5 Year Semi Annual Couponed G. Bond	22.06.2010	23.06.2010	17.06.2015	4.75%	9.49%	9.72%	2,232,849	2,936,354	2,994,579
3 Year Quarterly Couponed G. Bond	26.07.2010	28.07.2010	10.04.2013	2.08%	8.31%	8.57%	1,962,965	1,265,673	1,321,992
10 Year Semi Annual Couponed G. Bond	27.07.2010	28.07.2010	15.01.2020	4.39%	8.78%	8.98%	1,335,029	1,000,059	1,109,125
3 Year Quarterly Couponed G. Bond	16.08.2010	18.08.2010	10.04.2013	2.17%	8.68%	8.97%	3,454,148	3,568,981	3,713,389
10 Year Semi Annual Couponed G. Bond	17.08.2010	18.07.2010	15.01.2020	4.49%	8.98%	9.18%	1,497,630	1,235,123	1,360,361
5 Year Semi Annual Couponed G. Bond	28.09.2010	29.09.2010	17.06.2015	4.37%	8.73%	8.92%	4,443,448	2,885,908	3,102,013
3 Year Quarterly Couponed G. Bond	12.10.2010	13.08.2010	09.10.2013	1.92%	7.66%	7.89%	4,177,474	2,968,914	2,995,369
3 Year Quarterly Couponed G. Bond	01.11.2010	03.11.2010	09.10.2013	1.91%	7.63%	7.85%	2,425,206	3,874,672	3,929,893
10 Year Semi Annual Couponed G. Bond	02.11.2010	03.11.2010	15.01.2020	4.16%	8.32%	8.49%	2,286,349	2,110,147	2,462,138
5 Year Semi Annual Couponed G. Bond	06.12.2010	08.12.2010	17.06.2015	4.12%	8.24%	8.41%	2,150,428	2,692,208	2,992,685

Source: UT

Table 68
Fixed Coupon TL Denominated Treasury Auctions in 2011

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount	Nominal (thousand TL)	Net
9 Year Semi Annual Couponed G. Bond	11.01.2011	12.01.2011	15.01.2020	4.28%	8.57%	8.75%	3,840,709	2,936,950	3,431,027
3 Year Quarterly Couponed G. Bond	18.01.2011	19.01.2011	09.10.2013	1.98%	7.92%	8.16%	6,182,520	5,334,224	5,352,985
3 Year Quarterly Couponed G. Bond	31.01.2011	02.02.2011	29.01.2014	2.21%	8.84%	9.14%	1,887,543	1,854,610	1,813,778
5 Year Semi Annual Couponed G. Bond	01.02.2011	02.02.2011	27.01.2016	4.64%	9.27%	9.49%	2,322,628	3,133,671	3,099,925
3 Year Quarterly Couponed G. Bond	08.03.2011	09.03.2011	29.01.2014	2.29%	9.15%	9.47%	681,992	656,314	642,242
3 Year Quarterly Couponed G. Bond	11.04.2011	13.04.2011	29.01.2014	2.26%	9.04%	9.36%	2,582,906	1,810,939	1,792,270
3 Year Quarterly Couponed G. Bond	09.05.2011	11.05.2011	29.01.2014	2.23%	8.91%	9.21%	3,761,130	4,125,056	4,040,980
5 Year Semi Annual Couponed G. Bond	10.05.2011	11.05.2011	27.01.2016	4.54%	9.08%	9.29%	1,562,242	1,032,474	1,053,981
3 Year Quarterly Couponed G. Bond	07.06.2011	08.06.2011	04.06.2014	2.28%	9.12%	9.44%	1,310,341	1,832,487	1,778,976
3 Year Quarterly Couponed G. Bond	18.07.2011	20.07.2011	04.06.2014	2.26%	9.05%	9.36%	1,598,527	1,733,071	1,703,141
9 Year semi Annual Couponed G. Bond	19.07.2011	20.07.2011	15.01.2020	4.69%	9.39%	9.61%	632,241	1,094,814	1,220,466
3 Year Quarterly Couponed G. Bond	01.08.2011	03.08.2011	04.06.2014	2.27%	9.08%	9.40%	2,038,930	2,914,784	2,872,202
4 Year Semi Annual Couponed G. Bond	16.08.2011	17.08.2011	27.01.2016	4.37%	8.74%	8.93%	1,596,187	1,208,725	1,224,137
3 Year Quarterly Couponed G. Bond	05.09.2011	07.09.2011	04.06.2014	1.99%	7.95%	8.19%	1,991,437	3,281,561	3,285,802
8 Year Semi Annual Couponed G. Bond	06.09.2011	07.09.2011	15.01.2020	4.33%	8.67%	8.85%	1,165,361	1,733,127	1,940,550
3 Year Quarterly Couponed G. Bond	11.10.2011	12.10.2011	04.06.2014	2.10%	8.39%	8.66%	1,205,329	1,497,898	1,495,619
3 Year Quarterly Couponed G. Bond	14.11.2011	16.11.2011	04.06.2014	2.41%	9.66%	10.01%	1,066,426	1,204,858	1,178,530
4 Year Semi Annual Couponed G. Bond	15.11.2011	16.11.2011	27.01.2016	5.05%	10.10%	10.35%	372,442	757,256	748,811
2 Year Semi Annual Couponed G. Bond	06.12.2011	07.12.2011	04.12.2013	5.04%	10.09%	10.34%	1,543,327	2,295,109	2,291,461

Source: UT

Table 69

Fixed Coupon TL Denominated Treasury Auctions in 2012

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount	Nominal (thousand TL)	Net
4 Year Semi Annual Couponed G. Bond	23.01.2012	25.01.2012	27.01.2016	5.16%	10.31%	10.58%	2,684,748	3,669,138	3,672,508
2 Year Semi Annual Couponed G. Bond	24.01.2012	25.01.2012	04.12.2013	5.01%	10.03%	10.28%	3,171,568	4,852,016	4,913,786
10 Year Semi Annual Couponed G. Bond	24.01.2012	25.01.2012	12.01.2022	4.76%	9.51%	9.74%	1,135,974	1,378,400	1,377,294
4 Year Semi Annual Couponed G. Bond	13.02.2012	15.02.2012	27.01.2016	4.65%	9.3%	9.52%	3,263,429	2,250,666	2,236,268
2 Year Semi Annual Couponed G. Bond	14.02.2012	15.02.2012	04.12.2013	4.52%	9.03%	9.24%	1,868,460	3,032,850	3,138,366
10 Year Semi Annual Couponed G. Bond	14.02.2012	15.02.2012	12.01.2022	4.7%	9.4%	9.63%	2,098,227	1,575,169	1,593,209
10 Year Semi Annual Couponed G. Bond	05.03.2012	07.03.2012	12.01.2022	4.74%	9.48%	9.70%	2,383,488	2,457,599	2,487,189

2 Year Semi Annual Couponed G. Bond	06.03.2012	07.03.2012	05.03.2014	4.6%	9.19%	9.41%	2,498,436	2,784,542	2,774,850
5 Year Semi Annual Couponed G. Bond	13.03.2012	14.03.2012	08.03.2017	4.67%	9.34%	9.56%	3,438,821	2,338,611	2,307,232
5 Year Semi Annual Couponed G. Bond	17.04.2012	18.04.2012	08.03.2017	4.65%	9.31%	9.53%	2,258,706	2,855,702	2,845,882
2 Year Semi Annual Couponed G. Bond	24.04.2012	25.04.2012	05.03.2014	4.64%	9.27%	9.49%	1,651,009	1,849,226	1,862,817
10 Year Semi Annual Couponed G. Bond	24.04.2012	25.04.2012	12.01.2022	4.74%	9.48%	9.7%	2,298,361	3,686,085	3,778,020
2 Year Semi Annual Couponed G. Bond	08.05.2012	09.05.2012	05.03.2014	4.62%	9.25%	9.46%	1,955,614	1,157,164	1,170,207
2 Year Semi Annual Couponed G. Bond	19.06.2012	20.06.2012	05.03.2014	4.45%	8.9%	9.10%	1,544,364	1,827,830	1,877,617
2 Year Semi Annual Couponed G. Bond	10.07.2012	11.07.2012	05.03.2014	3.92%	7.85%	8.00%	3,864,358	4,420,856	4,635,455
5 Year Semi Annual Couponed G. Bond	06.08.2012	08.08.2012	08.03.2017	3.89%	7.78%	7.93%	1,852,276	2,792,996	3,023,670
2 Year Semi Annual Couponed G. Bond	07.08.2012	08.08.2012	05.03.2014	3.76%	7.52%	7.66%	2,204,591	3,505,933	3,714,745
9 Year Semi Annual Couponed G. Bond	07.08.2012	08.08.2012	12.01.2022	4.05%	8.11%	8.27%	1,116,486	1,488,279	1,628,489
10 Year Semi Annual Couponed G. Bond	24.09.2012	26.09.2012	14.09.2022	4.22%	8.44%	8.61%	3,688,255	3,113,146	3,126,596
2 Year Semi Annual Couponed G. Bond	25.09.2012	26.09.2012	24.09.2014	3.71%	7.42%	7.56%	6,145,842	3,937,635	3,943,108
2 Year Semi Annual Couponed G. Bond	16.10.2012	17.10.2012	24.09.2014	3.69%	7.38%	7.51%	7,533,940	2,591,803	2,608,522
4 Year Semi Annual Couponed G. Bond	05.11.2012	07.11.2012	08.03.2017	3.62%	7.23%	7.36%	3,251,590	2,045,050	2,205,895
2 Year Semi Annual Couponed G. Bond	06.11.2012	07.11.2012	24.09.2014	3.39%	6.78%	6.9%	3,904,354	2,496,681	2,549,305
10 Year Semi Annual Couponed G. Bond	06.11.2012	07.11.2012	14.09.2022	3.8%	7.6%	7.74%	3,070,361	3,138,319	3,362,677
2 Year Semi Annual Couponed G. Bond	11.12.2012	12.12.2012	24.09.2014	2.84%	5.69%	5.77%	1,574,684	1,096,764	1,147,344

Source: UT

Table 70

Fixed Coupon TL Denominated Treasury Auctions in 2013

	Auction Date	Value Date	Maturity Date	Average Interest Rate			Net		Sales Amount	
				Term	Simple	Compound	Bid Amount	Nominal		Net
4 Year Semi Annual Coupond G. Bond	07.01.2013	09.01.2013	08.03.2017	3.26%	6.51%	6.62%	12,107,026	2,847,522	3,185,836	
2 Year Semi Annual Coupond G. Bond	08.01.2013	09.01.2013	07.01.2015	3.00%	6.01%	6.10%	8,921,472	2,472,642	2,495,343	
10 Year Semi Annual Coupond G. Bond	08.01.2013	09.01.2013	14.09.2022	3.32%	6.64%	6.75%	4,219,822	2,369,317	2,739,671	
5 Year Semi Annual Coupond G. Bond	18.02.2013	20.02.2013	14.02.2018	3.10%	6.20%	6.30%	4,970,686	3,029,977	3,042,218	
2 Year Semi Annual Coupond G. Bond	19.02.2013	20.02.2013	07.01.2015	2.84%	5.68%	5.76%	1,470,376	2,305,581	2,356,122	
10 Year Semi Annual Coupond G. Bond	19.02.2013	20.02.2013	14.09.2022	3.37%	6.73%	6.84%	2,616,247	2,150,183	2,489,519	
5 Year Semi Annual Coupond G. Bond	18.03.2013	20.03.2013	14.02.2018	3.22%	6.44%	6.54%	2,182,819	1,366,346	1,364,846	
2 Year Semi Annual Coupond G. Bond	19.03.2013	20.03.2013	07.01.2015	3.04%	6.08%	6.17%	1,640,006	1,651,601	1,683,740	
10 Year Semi Annual Coupond G. Bond	19.03.2013	20.03.2013	08.03.2023	3.55%	7.11%	7.23%	3,190,045	2,195,594	2,194,781	
5 Year Semi Annual Coupond G. Bond	02.04.2013	03.04.2013	08.03.2023	3.57%	7.14%	7.27%	3,671,610	2,606,486	2,605,803	
2 Year Semi Annual Coupond G. Bond	08.04.2013	10.04.2013	14.02.2018	3.14%	6.28%	6.38%	5,824,514	3,451,955	3,484,031	
10 Year Semi Annual Coupond G. Bond	09.04.2013	10.04.2013	07.01.2015	2.94%	5.89%	5.97%	2,547,717	2,060,588	2,114,534	
5 Year Semi Annual Coupond G. Bond	13.05.2013	15.05.2013	14.02.2018	2.92%	5.84%	5.93%	6,186,267	4,969,831	5,135,214	
2 Year Semi Annual Coupond G. Bond	14.05.2013	15.05.2013	13.05.2015	2.48%	4.95%	5.01%	2,784,232	2,691,830	2,694,272	
10 Year Semi Annual Coupond G. Bond	14.05.2013	15.05.2013	08.03.2023	3.09%	6.18%	6.27%	1,743,859	1,576,432	1,699,500	
5 Year Semi Annual Coupond G. Bond	24.06.2013	26.06.2013	20.06.2018	4.37%	8.74%	8.93%	1,557,182	2,472,981	2,429,454	
2 Year Semi Annual Coupond G. Bond	25.06.2013	26.06.2013	13.05.2015	3.98%	7.96%	8.12%	1,644,374	1,650,631	1,576,003	
10 Year Semi Annual Coupond G. Bond	25.06.2013	26.06.2013	08.03.2023	4.30%	8.59%	8.78%	1,868,424	2,986,213	2,752,540	
5 Year Semi Annual Coupond G. Bond	15.07.2013	17.07.2013	20.06.2018	4.46%	8.92%	9.12%	2,730,796	3,724,961	3,651,210	
2 Year Semi Annual Coupond G. Bond	16.07.2013	17.07.2013	13.05.2015	4.40%	8.79%	8.99%	1,678,619	1,844,745	1,744,726	
10 Year Semi Annual Coupond G. Bond	16.07.2013	17.07.2013	08.03.2023	4.42%	8.84%	9.03%	2,714,034	3,108,461	2,833,458	
5 Year Semi Annual Coupond G. Bond	12.08.2013	14.08.2013	20.06.2018	4.42%	8.85%	9.04%	1,064,871	1,543,404	1,527,460	

2 Year Semi Annual Coupond G. Bond	13.08.2013	14.08.2013	13.05.2015	4.41%	8.83%	9.02%	1,023,076	1,559,495	1,483,940
10 Year Semi Annual Coupond G. Bond	13.08.2013	14.08.2013	08.03.2023	4.52%	9.04%	9.24%	1,458,460	1,841,138	1,668,236
5 Year Semi Annual Coupond G. Bond	09.09.2013	11.09.2013	20.06.2018	4.73%	9.47%	9.69%	1,287,337	2,365,970	2,302,702
2 Year Semi Annual Coupond G. Bond	10.09.2013	11.09.2013	13.05.2015	4.65%	9.30%	9.52%	1,006,572	1,503,285	1,429,564
10 Year Semi Annual Coupond G. Bond	10.09.2013	11.09.2013	08.03.2023	4.90%	9.81%	10.05%	1,543,849	2,670,990	2,321,037
5 Year Semi Annual Coupond G. Bond	07.10.2013	09.10.2013	20.06.2018	4.37%	8.74%	8.93%	6,245,914	2,980,607	3,002,038
2 Year Semi Annual Coupond G. Bond	08.10.2013	09.10.2013	07.10.2015	3.89%	7.78%	7.93%	3,899,795	2,216,104	2,237,050
10 Year Semi Annual Coupond G. Bond	08.10.2013	09.10.2013	27.09.2023	4.32%	8.64%	8.82%	3,957,828	1,714,775	1,733,329
5 Year Semi Annual Coupond G. Bond	18.11.2013	20.11.2013	14.11.2018	4.29%	8.57%	8.76%	2,368,607	2,108,567	2,127,646
2 Year Semi Annual Coupond G. Bond	19.11.2013	20.11.2013	07.10.2015	4.26%	8.52%	8.71%	3,260,167	1,598,459	1,607,424
10 Year Semi Annual Coupond G. Bond	19.11.2013	20.11.2013	27.09.2023	4.44%	8.89%	9.08%	1,315,370	1,866,724	1,874,975
5 Year Semi Annual Coupond G. Bond	02.12.2013	04.12.2013	14.11.2018	4.49%	8.97%	9.17%	1,971,199	2,088,728	2,081,457
2 Year Semi Annual Coupond G. Bond	03.12.2013	04.12.2013	07.10.2015	4.46%	8.92%	9.12%	1,322,813	1,777,588	1,781,482
10 Year Semi Annual Coupond G. Bond	03.12.2013	04.12.2013	27.09.2023	4.63%	9.26%	9.47%	1,220,750	1,428,346	1,405,679
2013 Total							109,216,737	82,798,056	82,856,838

Source: UT

Table 71

Fixed Coupon TL Denominated Treasury Auctions in 2014

	Auction Date 1	Value Date 1	Maturity Date 1	Average Interest Rate (%)		Net Bid Amount 2	Sales Amount (Inc. Switching) 2	
				Term	Simple	Compound	Nominal	Net
January 5 Year Semi Annual Coupond G. Bond (1750 days) (r-o)	27.01.2014	29.01.2014	14.11.2018	5.48%	10.95%	11.25%	1,719,472	3,234,752
January 2 Year Semi Annual Coupond G. Bond (616 days) (r-o)	28.01.2014	29.01.2014	07.10.2015	5.36%	10.73%	11.01%	3,499,565	1,574,321
January 10 Year Semi Annual Coupond G. Bond (3528 days) (r-o)	28.01.2014	29.01.2014	27.09.2023	5.09%	10.17%	10.43%	1,564,036	2,284,829

February	5 Year Semi Annual Coupond G.Bond (1722 days) (r-o)	24.02.2014	26.02.2014	14.11.2018	5.23%	10.46%	10.74%	4,907,110	2,778,831	2,674,933
February	2 Year Semi Annual Coupond G.Bond (728 days)	25.02.2014	26.02.2014	24.02.2016	5.44%	10.88%	11.18%	1,727,495	1,585,199	1,580,077
February	10 Year Semi Annual Coupond G.Bond (3500 days) (r-o)	25.02.2014	26.02.2014	27.09.2023	5.17%	10.34%	10.61%	2,025,947	2,147,660	2,021,292
March	5 Year Semi Annual Coupond G.Bond (1715 days) (r-o)	03.03.2014	05.03.2014	14.11.2018	5.36%	10.73%	11.01%	2,381,819	3,949,259	3,772,606
March	2 Year Semi Annual Coupond G.Bond (721 days) (r-o)	04.03.2014	05.03.2014	24.02.2016	5.51%	11.03%	11.33%	3,476,601	3,397,364	3,384,726
March	10 Year Semi Annual Coupond G.Bond (3493 days) (r-o)	04.03.2014	05.03.2014	27.09.2023	5.27%	10.54%	10.81%	2,570,935	3,492,565	3,255,595
April	5 Year Semi Annual Coupond G.Bond (1820 days)	31.03.2014	02.04.2014	27.03.2019	5.11%	10.22%	10.48%	2,341,922	2,545,461	2,563,172
April	2 Year Semi Annual Coupond G.Bond (693 days) (r-o)	01.04.2014	02.04.2014	24.02.2016	5.21%	10.42%	10.69%	2,700,735	1,882,281	1,910,232
April	10 Year Semi Annual Coupond G.Bond (3640 days)	01.04.2014	02.04.2014	20.03.2024	5.04%	10.09%	10.34%	1,800,069	2,086,343	2,126,795
May	2 Year Semi Annual Coupond G.Bond (644 days) (r-o)	20.05.2014	21.05.2014	24.02.2016	4.52%	9.04%	9.24%	3,592,848	1,506,130	1,582,913
May	5 Year Semi Annual Coupond G.Bond (1771 days) (r-o)	20.05.2014	21.05.2014	27.03.2019	4.55%	9.10%	9.31%	4,492,196	3,045,026	3,239,845
May	10 Year Semi Annual Coupond G.Bond (3584 days) (r-o)	27.05.2014	28.05.2014	20.03.2024	4.48%	8.96%	9.16%	2,878,952	1,798,556	1,993,684
June	5 Year Semi Annual Coupond G.Bond (1757 days) (r-o)	02.06.2014	04.06.2014	27.03.2019	4.20%	8.40%	8.57%	3,603,531	2,345,573	2,570,443
June	2 Year Semi Annual Coupond G.Bond (630 days) (r-o)	03.06.2014	04.06.2014	24.02.2016	4.15%	8.29%	8.47%	4,432,319	1,932,148	2,060,814
June	10 Year Semi Annual Coupond G.Bond (3577 days) (r-o)	03.06.2014	04.06.2014	20.03.2024	4.45%	8.89%	9.09%	2,519,330	2,001,534	2,231,711
July	5 Year Semi Annual Coupond G.Bond (1820 days)	14.07.2014	16.07.2014	10.07.2019	4.22%	8.45%	8.62%	3,683,655	2,825,867	2,831,936

July	2 Year Semi Annual Couponed G.Bond (728 days)	15.07.2014	16.07.2014	13.07.2016	4.03%	8.07%	8.23%	3,331,675	2,234,374	2,239,735
July	10 Year Semi Annual Couponed G.Bond (3535 days) (r-o)	15.07.2014	16.07.2014	20.03.2024	4.39%	8.78%	8.97%	3,737,063	1,699,556	1,927,517
August	5 Year Semi Annual Couponed G.Bond (1799 days) (r-o)	04.08.2014	06.08.2014	10.07.2019	4.45%	8.90%	9.10%	2,215,188	2,204,433	2,179,987
August	2 Year Semi Annual Couponed G.Bond (707 days) (r-o)	05.08.2014	06.08.2014	13.07.2016	4.46%	8.92%	9.12%	3,092,597	1,888,901	1,873,827
August	10 Year Semi Annual Couponed G.Bond (3640 days)	05.08.2014	06.08.2014	24.07.2024	4.58%	9.15%	9.36%	3,524,723	1,897,394	1,878,479
September	5 Year Semi Annual Couponed G.Bond (1750 days) (r-o)	22.09.2014	24.09.2014	10.07.2019	4.56%	9.13%	9.33%	3,192,639	2,920,906	2,898,119
September	2 Year Semi Annual Couponed G.Bond (658 days) (r-o)	23.09.2014	24.09.2014	13.07.2016	4.55%	9.10%	9.31%	1,446,558	1,563,773	1,565,011
September	10 Year Semi Annual Couponed G.Bond (3591 days) (r-o)	23.09.2014	24.09.2014	24.07.2024	4.64%	9.27%	9.49%	2,824,086	2,556,272	2,542,647
October	5 Year Semi Annual Couponed G.Bond (1743 days) (r-o)	29.09.2014	01.10.2014	10.07.2019	4.84%	9.69%	9.92%	1,932,792	2,224,371	2,164,534
October	2 Year Semi Annual Couponed G.Bond (651 days) (r-o)	30.09.2014	01.10.2014	13.07.2016	4.88%	9.77%	10.01%	2,498,686	1,707,002	1,693,275
October	10 Year Semi Annual Couponed G.Bond (3584 days) (r-o)	30.09.2014	01.10.2014	24.07.2024	4.86%	9.71%	9.95%	2,720,386	2,005,048	1,942,850
November	5 Year Semi Annual Couponed G.Bond (1694 days) (r-o)	17.11.2014	19.11.2014	10.07.2019	4.05%	8.10%	8.26%	2,480,936	2,253,310	2,353,604
November	2 Year Semi Annual Couponed G.Bond (728 days)	18.11.2014	19.11.2014	16.11.2016	3.94%	7.88%	8.04%	1,673,743	1,251,227	1,258,458
November	10 Year Semi Annual Couponed G.Bond (3535 days) (r-o)	18.11.2014	19.11.2014	24.07.2024	4.14%	8.27%	8.44%	2,264,757	1,910,229	2,051,050
Total								92,854,367	74,730,493	75,115,696

1. dd.mm.yyyy
2. (in thousands of Turkish Lira)

Couponed G. Bond	24.05.2011	25.05.2011	24.01.2018	3.93%	7.87%	8.02%	566,110	1,398,855	1,401,414
7 Year Semi Annual Couponed G. Bond	22.11.2011	23.11.2011	24.01.2018	5.01%	10.01%	10.26%	417,500	410,844	391,328

Source: UT

Table 74
Floating Rate Note Auctions of 2012

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Nominal Bid Amount	Nominal	Net
								(thousand TL)	
7 Year Quarterly Couponed G. Bond	17.01.2012	18.01.2012	24.01.2018	5.07%	10.15%	10.41%	4,042,410	923,036	887,220

Source: UT

Table 75
Floating Rate Note Auctions of 2013

	Auction Date	Value Date	Maturity Date	Average Interest Rate			Sales Amount		
				Term	Simple	Compound	Nominal Bid Amount	Nominal	Net
7 Year FRN G.Bond	18.03.2013	20.03.2013	11.03.2020	3.40%	6.81%	6.93%	4,278,710	2,894,287	2,842,474
7 Year FRN G.Bond	01.04.2013	03.04.2013	11.03.2020	3.44%	6.88%	7.00%	3,223,300	2,791,547	2,736,976
7 Year FRN G.Bond	13.05.2013	15.05.2013	11.03.2020	3.46%	6.93%	7.05%	1,118,500	2,050,222	2,021,191
7 Year FRN G.Bond	25.06.2013	26.06.2013	11.03.2020	3.76%	7.53%	7.67%	1,655,741	2,956,656	2,846,670
7 Year FRN G.Bond	27.08.2013	28.08.2013	11.03.2020	3.95%	7.91%	8.06%	2,052,200	2,322,954	2,222,229
7 Year FRN G.Bond	08.10.2013	09.10.2013	11.03.2020	4.03%	8.06%	8.22%	3,720,200	2,183,360	2,086,021
7 Year FRN G.Bond	19.11.2013	20.11.2013	11.11.2020	4.25%	8.51%	8.69%	5,017,618	2,501,808	2,456,348
7 Year FRN G.Bond	02.12.2013	04.12.2013	11.11.2020	4.29%	8.58%	8.77%	3,189,400	2,515,122	2,468,013
2013 Total							24,255,669	20,215,957	19,679,923

Source: UT

Table 76
Floating Rate Note Auctions of 2014

		Auction Date ¹	Value Date ¹	Maturity Date ¹	Average Interest Rate (%)			Net Bid Amount ²	Sales Amount (Inc. Switching) ²	
					Term	Simple	Compound		Nominal	Net
February	7 Year FRN G.Bond (2450 days) (r-o)	24.02.2014	26.02.2014	11.11.2020	4.29%	8.58%	8.77%	2,818,062	3,127,508	3,129,200
March	7 Year FRN G.Bond (2443 days) (r-o)	04.03.2014	05.03.2014	11.11.2020	4.45%	8.91%	9.11%	897,662	2,783,285	2,744,540
April	7 Year FRN G.Bond (2415 days) (r-o)	01.04.2014	02.04.2014	11.11.2020	4.46%	8.92%	9.12%	2,842,018	3,684,754	3,656,420
May	7 Year FRN G.Bond (2548 days)	27.05.2014	28.05.2014	19.05.2021	5.22%	10.44%	10.71%	2,743,685	1,545,877	1,538,428

June	7 Year FRN G.Bond (2541 03.06.2014 04.06.2014 19.05.2021 5.26% 10.53% 10.80% 1,834,706 2,535,657 2,517,451 days) (r-o)
July	7 Year FRN G.Bond (2499 14.07.2014 16.07.2014 19.05.2021 5.33% 10.66% 10.94% 2,826,036 2,049,297 2,046,018 days) (r-o)
August	7 Year FRN G.Bond (2478 04.08.2014 06.08.2014 19.05.2021 5.42% 10.84% 11.13% 2,864,739 2,067,558 2,059,039 days) (r-o)
September	7 Year FRN G.Bond (2430 22.09.2014 23.09.2014 19.05.2021 5.41% 10.82% 11.11% 4,221,274 2,371,696 2,398,356 days) (r-o)
Total	21,048,182 20,165,633 20,089,452

1. dd.mm.yyyy
2. (in thousands of Turkish Lira)

Source: UT

Table 77

Fixed Coupon FX Denominated Auctions in 2010

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Nominal	Nominal	Net
							Bid Amount	(million)	
2 Years G. Bond-USD	19.01.2010	29.01.2010	18.01.2012	1.23%	2.46%	2.48%	2,180.2	1,923.9	1,925.8

Source: UT

Table 78

Switching Auctions in 2010

Auction Date (dd.mm.yyyy)	Securities Issued			Interest		
	Value Date (dd.mm.yyyy)		Maturity Date (dd.mm.yyyy)	Term	Simple	Comp.
28.01.2010		656 Days				
	29.01.2010	G. Bond	16.11.2011	16.68%	9.26%	8.94%
28.01.2010		656 Days				
	29.01.2010	G. Bond	16.11.2011	16.68%	9.26%	8.94%
28.01.2010		2434 Days				
	29.01.2010	G. Bond	28.09.2016	1.92%	7.68%	7.90%
18.03.2010		1027 Days				
	19.03.2010	G. Bond	09.01.2013	2.40%	9.61%	9.96%
29.04.2010		2441 Days				
	30.04.2010	G. Bond	04.01.2017	2.00%	7.99%	8.23%
29.04.2010		635 Days				
	30.04.2010	G. Bond	25.01.2012	16.83%	9.65%	9.33%

Source: UT

Table 79
Securities Bought Back

<i>(Thousand TL)</i>	Net Bid Amount	Amount Bought Back	
		Nominal	Net
75 Days T. Bill	372,399	260,000	256,761
145 Days T. Bill	371,946	284,000	276,445
201 Days T. Bill	1,629,791	930,000	995,906
306 Days T. Bill	654,036	376,256	403,843
257 Days T. Bill	1,057,843	427,866	444,511
264 Days T. Bill	585,112	393,996	424,547
TOTAL	4,671,127	2,672,118	2,802,013

Source: UT

Table 80
Buy Back Auctions in 2010

Auction Date	Value Date	Securities Bought Back	Maturity Date	Net Bid Amount	Term	Interest		<i>(Thousand TL)</i> Early Redeemed Through Buy Back	
						Simple	Comp.	Nominal	Net
02.09.2010		TRT120111T10							
	02.09.2010	(FRN)	12.01.2011	676,863	3.68%	7.36%	7.50%	86,600	88,510
02.09.2010		TRT120111T10							
	02.09.2010	(FRN)	12.01.2011	438,682	3.58%	7.15%	7.28%	192,800	197,730
23.09.2010		TRT190111T13							
	23.09.2010	(Fixed)	19.01.2011	803,632	3.64%	7.28%	7.41%	191,261	200,000
30.09.2010		TRT190111T13							
	30.09.2010	(Fixed)	19.01.2011	665,356	3.62%	7.23%	7.37%	188,000	196,886
07.10.2010		TRT190111T13							
	07.10.2010	(Fixed)	19.01.2011	458,853	3.60%	7.20%	7.33%	100,000	104,880
14.10.2010		TRT120111T10							
	14.10.2010	(FRN)	12.01.2011	684,648	3.60%	7.20%	7.33%	100,000	103,101
21.10.2010		TRT120111T10							
	21.10.2010	(FRN)	12.01.2011	663,391	3.61%	7.21%	7.34%	180,00	185,830
04.11.2010		TRT120111T10							
	04.11.2010	(FRN)	12.01.2011	508,72	3.59%	7.18%	7.30%	193,186	200,000
11.11.2010		TRT120111T10							
	11.11.2010	(FRN)	12.01.2011	485,059	3.59%	7.19%	7.32%	192,927	200,000
25.11.2010		TRT120111T10							
	25.11.2010	(FRN)	12.01.2011	223,618	3.59%	6.79%	6.90%	50,000	52,000
02.12.2010		TRT020211T11							
	02.12.2010	(Zero Coup.)	02.02.2011	326,350	1.14%	6.80%	6.99%	20,000	19,775
09.12.2010		TRT020211T11							
	09.12.2010	(Zero Coup.)	02.02.2011	158,529	0.93%	6.29%	6.46%	100,000	99,076
16.12.2010		TRT020211T11							
	16.12.2010	(Zero Coup.)	02.02.2011	99,221	0.00%	0.00%	0.00%	0,00	0
TOTAL				6,192,922				1,594,774	1,647,788

Source: UT

Table 81
CPI Indexed TL Denominated Auctions in 2010

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Real Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net Bid Amount	Nominal	Net
								(thousand TL)	
5 Year G. Bond (Semiannually 2.25% real interest rate)	15.02.2010	17.02.2010	11.02.2015	1.83%	3.67%	3.70%	4,727,902	4,278,644	4,440,344
5 Year G. Bond (Semiannually 2.25% real interest rate)	02.03.2010	03.03.2010	11.02.2015	1.83%	3.65%	3.69%	2,647,529	4,224,410	4,409,230
10 Year G. Bond (Semiannually 2% real interest rate)	13.04.2010	14.04.2010	01.04.2020	2.12%	4.24%	4.29%	1,825,886	3,004,849	2,946,015
5 Year G. Bond (Semiannually 2% real interest rate)	04.05.2010	05.05.2010	29.04.2015	1.91%	3.83%	3.86%	2,904,175	3,757,447	3,786,974
5 Year G. Bond (Semiannually 2% real interest rate)	21.06.2010	23.06.2010	29.04.2015	1.88%	3.76%	3.79%	5,243,210	3,404,255	3,492,900
10 Year G. Bond (Semiannually 2% real interest rate)	10.08.2010	11.08.2010	01.04.2020	2.08%	4.15%	4.19%	1,628,689	2,198,327	2,232,159
10 Year G. Bond (Semiannually 2% real interest rate)	23.11.2010	24.11.2010	01.04.2020	0.89%	1.78%	1.78%	5,794,001	2,532,488	3,093,476

Source: UT

Table 82

CPI Indexed TL Denominated Auctions in 2011

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Real Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net		
							Net Bid Amount	Nominal (thousand TL)	Net
10 Year G. Bond (Semiannually 1.5% real interest rate)	18.01.2011	19.01.2011	06.01.2021	1.42%	2.84%	2.86%	4,087,755	3,329,248	3,376,283
10 Year G. Bond (Semiannually 1.5% real interest rate)	15.02.2011	16.02.2011	06.01.2021	1.41%	2.82%	2.84%	1,831,430	1,969,384	2,001,883
10 Year G. Bond (Semiannually 1.5% real interest rate)	12.04.2011	13.04.2011	06.01.2021	1.42%	2.84%	2.86%	1,801,320	2,210,784	2,265,527
5 Year G. Bond (Semiannually 1.25% real interest rate)	09.05.2011	11.05.2011	04.05.2016	1.15%	2.31%	2.32%	1,202,205	1,140,242	1,150,593
10 Year G. Bond (Semiannually 1.5% real interest rate)	02.08.2011	03.08.2011	21.07.2021	1.68%	3.36%	3.39%	764,939	1,298,521	1,258,926
4 Year G. Bond (Semiannually 1.25% real interest rate)	14.11.2011	16.11.2011	04.05.2016	1.26%	2.52%	2.54%	526,548	1,323,430	1,360,326

Source: UT

Table 83

CPI Indexed TL Denominated Auctions in 2012

	Auction Date (dd.mm.yyyy)	Value Date (dd.mm.yyyy)	Maturity Date (dd.mm.yyyy)	Average Real Interest Rate			Sales Amount (Inc. Switching)		
				Term	Simple	Compound	Net		
							Net Bid Amount	Nominal (thousand TL)	Net
10 Year G. Bond (Semiannually 1.5% real interest rate)	23.01.2012	25.01.2012	21.07.2021	2.08%	4.16%	4.20%	2,650,621	2,310,156	2,218,360
10 Year G. Bond (Semiannually 1.5% real interest rate)	14.02.2012	15.02.2012	21.07.2021	1.85%	3.7%	3.73%	5,309,008	3,994,621	3,968,223
10 Year G. Bond (Semiannually 1.5% real interest rate)	06.03.2012	07.03.2012	23.02.2022	1.77%	3.55%	3.58%	2,690,657	2,355,206	2,247,201
10 Year G. Bond (Semiannually 1.5% real interest rate)	17.04.2012	18.04.2012	23.02.2022	1.73%	3.47%	3.5%	2,305,327	3,127,141	3,039,204
10 Year G. Bond (Semiannually 1.5% real interest rate)	06.08.2012	08.08.2012	23.02.2022	1.38%	2.76%	2.78%	3,517,059	4,317,360	4,576,269
10 Year G. Bond (Semiannually 1.5% real interest rate)	05.11.2012	07.11.2012	26.10.2022	0.84%	1.69%	1.69%	4,773,647	3,371,010	3,467,755

Source: UT

Table 84

CPI Indexed TL Denominated Auctions in 2013

	Auction	Value	Maturity	Average Interest Rate			Nominal Bid Amount	Sales Amount	
	Date	Date	Date	Term	Simple	Compound		Nominal	Net
January									
10 Year G. Bond	07.01.2013	09.01.2013	26.10.2022	0.68%	1.35%	1.36%	3,477,321	2,130,337	2,331,867
February									
10 Year G. Bond	18.02.2013	20.02.2013	26.10.2022	0.50%	1.01%	1.01%	3,232,103	2,611,719	2,971,977
April									
10 Year G. Bond	09.04.2013	10.04.2013	26.10.2022	0.48%	0.96%	0.96%	3,308,900	2,241,812	2,606,311
May									
10 Year G. Bond	14.05.2013	15.05.2013	03.05.2023	0.47%	0.94%	0.94%	4,666,810	2,554,300	2,569,723
June									
10 Year G. Bond	24.06.2013	26.06.2013	03.05.2023	1.47%	2.93%	2.95%	1,338,400	2,679,726	2,257,668
July									
10 Year G. Bond	15.07.2013	17.07.2013	03.05.2023	1.59%	3.19%	3.22%	4,009,881	3,917,635	3,233,182
August									
10 Year G. Bond	12.08.2013	14.08.2013	02.08.2023	1.47%	2.94%	2.96%	3,994,101	3,750,163	3,769,779
September									
10 Year G. Bond	09.09.2013	11.09.2013	02.08.2023	1.78%	3.55%	3.58%	2,297,120	2,716,387	2,612,512
October									
10 Year G. Bond	07.10.2013	09.10.2013	02.08.2023	1.47%	2.94%	2.96%	2,571,100	2,010,544	2,044,444
November									
10 Year G. Bond	18.11.2013	20.11.2013	08.11.2023	1.29%	2.58%	2.60%	5,195,784	2,503,581	2,551,022
2013 Total							34,091,519	27,116,204	26,948,484

The following table presents Turkey's central government domestic debt at the end of the years listed:

Source: UT

Table 85

CPI Indexed TL Denominated Auctions in 2014

		Auction Date ¹	Value Date ¹	Maturity Date ¹	Average Interest Rate (%)			Net Bid Amount ²	Sales Amount (Inc. Switching) ²	
				Term	Simple	Compound		Nominal	Net	
January	10 Year G. Bond (3570 days) (r-o)	27.01.2014	29.01.2014	08.11.2023	1.85%	3.69%	3.73%	3,166,925	3,167,990	3,015,735
February	5 Year G. Bond (1820 days)	25.02.2014	26.02.2014	20.02.2019	1.67%	3.35%	3.38%	3,500,844	2,310,746	2,326,670
March	5 Year G. Bond (1813 days) (r- o)	03.03.2014	05.03.2014	20.02.2019	1.67%	3.33%	3.36%	3,754,089	3,246,163	3,282,719
April	5 Year G. Bond (1785 days) (r- o)	31.03.2014	02.04.2014	20.02.2019	1.67%	3.34%	3.36%	4,395,722	2,505,113	2,583,551
May	10 Year G. Bond (3640 days)	20.05.2014	21.05.2014	08.05.2024	1.12%	2.24%	2.26%	5,335,723	2,518,407	2,553,207
June	10 Year G. Bond (3626 days) (r-o)	02.06.2014	04.06.2014	08.05.2024	0.91%	1.83%	1.84%	4,608,794	1,692,951	1,791,666
July	10 Year G. Bond (3584 days) (r-o)	15.07.2014	16.07.2014	08.05.2024	0.86%	1.73%	1.74%	4,173,749	1,533,612	1,663,848

October 10 Year G. Bond (3640 days)	29.09.2014	01.10.2014	18.09.2024	1.03%	2.07%	2.08%	3,371,811	2,641,006	2,625,507
2014 Total							32,307,657	19,615,987	19,842,902

- 1. dd.mm.yyyy
- 2. (in thousands of Turkish Lira)

The following table presents Turkey's central government domestic debt at the end of the years listed:

Source: UT

Table 86

Central Government Domestic Debt

(In millions of TL)	2010	2011	2012	2013	2014
Total Domestic Debt	352,841	368,778	386,542	403,007	414,649
Cash	350,379	366,355	384,672	401,754	414,000
Bonds	340,854	366,355	380,988	401,754	414,000
Bills	9,525	—	3,684	—	—
Non-Cash	2,463	2,424	1,870	1,253	648
Bonds	2,463	2,424	1,870	1,253	648
Bills	—	—	—	—	—

Source: UT.

Table 87

Domestic Debt Service ⁽¹⁾

(In millions of TL)	2010	2011	2012	2013	2014
Total Domestic Debt Service	183,731	132,688	124,838	167,136	157,047
Principal	141,583	97,624	84,136	128,062	117,788
Interest	42,148	35,064	40,702	39,073	39,259

(1) Payments on non-cash basis are included.

Source: UT

EXTERNAL DEBT AND DEBT MANAGEMENT

Turkey's gross external debt increased from U.S.\$292 billion in 2010 to U.S.\$402.4 billion in 2014. The main factor for this change was the increasing trend of private sector debt. Private sector debt was U.S.\$191.4 billion in 2010 and U.S.\$282.3 billion in 2014.

The external debt to GDP ratio was 39.9% at the end of 2010, and the ratio increased to 50.3% in 2014. The public sector external debt to GDP ratio increased from 12.2% in 2010 to 14.7% in 2014 and private sector debt to GDP increased from 26.2% in 2010 to 35.3% in 2014, while the Central Bank's external debt to GDP decreased from 1.6% in 2010 to 0.3% in 2014.

In addition, the maturity composition of the gross external debt did not change significantly during the last five years. The ratio of the short term external debt to total external debt increased approximately by 6.6% in 2014, compared to 2010. At the end of 2010, the share of the short and long term external debt to total external debt was 26.5% and 73.5%, and reached 33% and 67%, respectively, in 2014. The sectoral breakdown of external debt has changed such that the share of the "monetary authorities" and "public sector" debt in the total external debt stock

declined by 3.3% and 1.3%, respectively, during this period. On the other hand, the share of “private sector” external debt of the total external debt stock increased by 4.6%. The share of “public sector,” “monetary authorities’ debt” and “private sector” debt in the total external debt stock was 29.2%, 0.6% and 70.1%, respectively, as of the end of 2014.

“At the end of 2014, Treasury-guaranteed external debt stock was U.S.\$11.2 billion, representing an increase of approximately U.S.\$3.7 billion compared to end of 2010.”

The following tables provide information as to the public and private share of external debt stock of Turkey for the periods indicated:

Table 88

Gross Outstanding External Debt of Turkey ⁽¹⁾

GROSS EXTERNAL DEBT- by BORROWER (Million \$)	2010	2011	2012	2013	2014
TOTAL	292,043	303,931	339,042	389,183	402,441
SHORT TERM (2)	77,247	81,580	100,195	130,425	132,859
PUBLIC SECTOR	4,290	7,013	11,040	17,605	17,866
GENERAL GOVERNMENT	0	0	0	0	0
Central Government	0	0	0	0	0
Local Administrations	0	0	0	0	0
Funds	0	0	0	0	0
FINANCIAL INSTITUTIONS	4,290	7,013	11,040	17,605	17,866
Banks	4,290	7,013	11,040	17,605	17,866
Non-Banking Institutions	0	0	0	0	0
NON-FINANCIAL INSTITUTIONS	0	0	0	0	0
SOE's	0	0	0	0	0
Other	0	0	0	0	0
CBRT	1,553	1,239	1,036	833	342
<i>Dresdner Bank Scheme</i>	1,552	1,238	1,036	833	342
<i>Other</i>	1	1	0	0	0
PRIVATE SECTOR	71,404	73,328	88,119	111,987	114,651
FINANCIAL INSTITUTIONS	47,604	46,528	59,213	77,031	79,991
Banks	46,576	45,226	57,345	74,656	77,971
Non-Banking Institutions	1,028	1,302	1,868	2,375	2,020
NON-FINANCIAL INSTITUTIONS	23,800	26,800	28,906	34,956	34,660
LONG TERM	214,796	222,351	238,847	258,758	269,582
PUBLIC SECTOR	84,820	87,267	92,983	98,339	99,813
GENERAL GOVERNMENT	81,750	82,990	85,482	89,325	88,213
Central Government	78,085	79,185	81,710	85,664	85,162
Local Administrations	3,618	3,789	3,769	3,661	3,050
Funds	47	17	3	0	0
FINANCIAL INSTITUTIONS (3)	1,745	3,051	6,245	7,833	10,611
Banks	1,745	3,051	6,245	7,833	10,611
Non-Banking Institutions	0	0	0	0	0
NON-FINANCIAL INSTITUTIONS	1,324	1,225	1,257	1,181	989
SOE's	1,183	1,162	1,214	1,158	989
Other (4)	141	64	43	23	0

CBRT	10,012	8,095	6,052	4,401	2,142
<i>CBRT Loans</i>	0	0	0	0	0
<i>Dresdner Bank Scheme</i>	10,003	8,086	6,043	4,392	2,133
<i>NGTA</i>	9	9	9	9	9
PRIVATE SECTOR (5)	119,964	126,989	139,812	156,017	167,627
FINANCIAL INSTITUTIONS	41,286	48,054	57,074	73,069	84,856
Banks	28,737	34,904	41,744	54,891	65,967
Non-Banking Institutions	12,549	13,150	15,330	18,178	18,890
NON-FINANCIAL INSTITUTIONS	78,678	78,935	82,738	82,948	82,771
GROSS EXTERNAL DEBT - by LENDER (Million \$)	2010	2011	2012	2013	2014
TOTAL	292,043	303,931	339,042	389,183	402,441
LOAN	246,658	253,400	274,004	308,412	305,856
SHORT TERM	77,247	81,580	100,181	128,953	128,706
PRIVATE CREDITORS	76,746	81,323	100,109	128,947	128,464
MONETARY INSTITUTIONS	47,511	47,337	63,587	84,036	82,813
NONMONETARY INSTITUTIONS	29,235	33,986	36,522	44,911	45,651
OFFICIAL CREDITORS	501	257	72	6	242
LONG TERM	169,411	171,820	173,823	179,459	177,150
PRIVATE CREDITORS	126,991	128,059	129,299	133,343	132,731
MONETARY INSTITUTIONS	104,760	108,176	109,811	114,747	117,275
NONBANK FINANCIAL INSTITUTIONS	6,652	7,615	9,821	10,909	10,633
PRIVATE INVESTMENT & DEV.					
BANKS	7	5	3	0	0
FOREIGN COMMERCIAL BANKS	65,613	71,632	72,190	76,215	79,225
FOREIGN BRANCHES OF DOMESTIC BANKS					
AND OTHERS	32,487	28,925	27,798	27,623	27,416
NONMONETARY INSTITUTIONS	22,231	19,883	19,488	18,596	15,456
OFFICIAL CREDITORS	42,421	43,761	44,524	46,116	44,420
GOVERNMENTAL ORGANIZATIONS	9,084	9,053	8,595	7,900	7,444
PUBLIC FINANCE INSTITUTIONS	2,122	2,323	2,217	2,152	2,115
CENTRAL BANKS	0	0	0	0	0
CENTRAL GOVERNMENTS	365	276	214	162	109
OFFICIAL DEVELOPMENT BANKS	6,597	6,454	6,164	5,586	5,220
MULTILATERAL ORGANIZATIONS	33,337	34,708	35,929	38,216	36,976
IMF-INTERNATIONAL MONETARY FUND	7,107	4,361	2,338	1,477	1,389
IMF SDR ALLOCATION	1,478	1,476	1,474	1,477	1,389
IBRD	11,671	12,446	13,387	14,227	13,112
OTHER MULTILATERAL INST.	14,559	17,901	20,204	22,512	22,475
BONDS (6)	45,385	50,531	65,038	80,770	96,585
SHORT TERM	0	0	14	1,472	4,153
LONG TERM	45,385	50,531	65,024	79,298	92,432

- (1) Provisional.
- (2) Source: CBRT.
- (3) Public Deposit Banks and Public Development & Investment Banks.
- (4) Public Corporations, Regulatory Institutions and Organizations.

- (5) Since October 1, 2001, CBRT is responsible for monitoring private sector debt.
- (6) All the bonds issued in foreign markets are long term securities and the lender class of the bonds is “monetary institutions” according to the primary market issuance.

Source: UT, CBRT.

Currency Composition of Outstanding External Debt ⁽¹⁾⁽²⁾

The following tables present the relationship of Turkey’s public and private external debt to other financial indicators for, or at the end of, the periods indicated:

Table 89

%	2010	2011	2012	2013	2014
TOTAL	100	100	100	100	100
CHF	0.4	0.4	0.4	0.6	0.6
ECU/EUR	34.4	35.6	34.5	35.5	31.7
GBP	0.3	0.3	0.4	0.3	0.4
JPY	1.7	2.5	2.4	1.8	1.9
SDR	2.4	1.4	0.7	0.4	0.4
USD	50.9	54.0	54.6	54.3	57.6
Other	9.9	5.8	7.0	7.1	7.4

(1) Provisional.

(2) Reflects figures at the end of the periods indicated.

Source: UT

Debt Ratios

Table 90

	2010	2011	2012	2013	2014
DOD / GDP (%)					
Total	39.9	39.3	43.1	47.3	50.3
Short Term	10.6	10.5	12.7	15.8	16.6
Long Term	29.4	28.7	30.4	31.4	33.7
Public Sector	12.2	12.2	13.2	14.1	14.7
Central Bank	1.6	1.2	0.9	0.6	0.3
Private Sector	26.2	25.9	29.0	32.6	35.3
FINANCIAL RATIOS (%)					
T.EXTERNAL DEBT / EXPORTS (FOB)	256.4	225.3	222.4	256.4	255.3
EXTERNAL DEBT SERVICE / GDP	7.6	6.5	6.6	6.6	6.0
EXTERNAL DEBT SERVICE / EXPORTS (FOB)	48.8	37.3	33.9	35.6	30.3
PRIVATE SECTOR/ EXPORTS (FOB)	168.0	148.5	149.5	176.5	179.1
INTEREST / GDP	1.1	1.0	1.0	1.0	1.1
INTEREST / EXPORTS (FOB)	7.4	5.9	5.4	5.5	5.5
INTERNATIONAL RESERVES (NET) / T. EXTERNAL DEBT	29.4	29.1	35.1	33.7	31.6
INTERNATIONAL RESERVES (NET) / SHORT TERM DEBT	111.3	108.3	118.9	100.4	95.8
INTERNATIONAL RESERVES (GROSS) / T. EXTERNAL DEBT	27.6	25.8	29.5	28.5	26.6
INTERNATIONAL RESERVES (GROSS) / SHORT TERM DEBT	104.5	96.2	99.7	85.1	80.5
CBRT RESERVES (GROSS) / IMPORTS (CIF)	43.5	32.6	42.2	44.1	44.1
CBRT RESERVES (NET) / IMPORTS (CIF)	46.3	36.7	50.4	52.1	52.6
CURRENT ACCOUNT BALANCE / CBRT RESERVES (GROSS)	-56.1	-95.6	-48.6	-58.3	-43.5
CURRENT ACCOUNT BALANCE / CBRT RESERVES (NET)	-52.7	-84.9	-40.7	-49.4	-36.5
CURRENT ACCOUNT BALANCE / GDP	-6.2	-9.7	-6.2	-7.9	-5.8

Source: UT, CBRT, TURKSTAT.

External Debt Service^{(1) (2)}

Table 91

(Million \$)	2010	2011	2012	2013	2014
Total External Debt Service	55,528	50,356	51,703	54,105	47,757
Principal	47,152	42,365	43,527	45,766	39,133
Interest	8,376	7,991	8,176	8,339	8,624

(1) Provisional.

(2) Repayments through bond issues are included.

Source: CBRT.

The aggregate amount of scheduled repayment of principal and interest on the medium and long-term external public and private debt of Turkey (disbursed and undisbursed) is set forth below for the periods indicated:

Medium and Long-Term External Debt Service⁽¹⁾⁽²⁾

Table 92

(Million \$)	2015 (May-December)	2016	2017	2018	2019	2020+	TOTAL
GROSS TOTAL	65,035	52,114	43,865	36,513	35,314	154,646	387,486
PUBLIC	11,339	13,043	13,461	11,449	12,100	88,278	149,670
PRINCIPLE	8,792	8,787	9,495	7,987	8,944	61,006	105,009
INTEREST	2,547	4,256	3,966	3,462	3,157	27,272	44,660
PRIVATE SECTOR	53,696	39,071	30,404	25,064	23,214	66,368	237,816
PRINCIPLE	50,801	34,956	26,304	21,260	19,677	54,061	207,060
INTEREST	2,895	4,115	4,100	3,804	3,536	12,307	30,756

(1) Provisional.

(2) Excluding NGTA and Dresdner Accounts' Repayments.

Source: UT, CBRT (Cross rates based on: 04/30/2015).

Table 93

Central Government External Debt Of Turkey (as of December 31, 2014)
(issued between January 1, 2010 and December 31, 2014)

	Agreement Date	Currency	Maturity (Years)	Outstanding Amount (Million USD)
Bond				29,668
Monetary Institutions	Various (05-Jan-2010 - 18-Nov-2014)	USD-EUR-JYP	Various (5 - 31)	29,668
Loan				9,296
Governmental Organizations	Various (28-May-2010 - 27-Jan-2014)	EUR-JYP	Various (15 - 25)	422
Monetary Institutions	Various (20-Jan-2010 - 08-May-2014)	USD-EUR-CHF	Various (5 - 22)	2,554
International Organizations	Various (24-Mar-2010 - 22-Aug-2014)	USD-EUR-ISK-SDR	Various (13 - 30)	6,319
Total				38,964

Source: UT

External Debt of Turkey (Public Guaranteed)

Table 94

(provided between January 1,
2010 and December 31, 2014)
(dd.mm.yyyy)

		External Debt of Turkey (Public Guaranteed)			
Agreement Date	Currency	Debt Disbursed and Outstanding (\$)	Maturity (Year)	Interest Type	Interest Rate / Margin
13.05.2010	EUR	\$ 38,932,941.17	12.9	EURIBOR6MD	0.9
13.05.2010	EUR	\$ 38,945,735.30	12.9	LIUSD6MD	0.62
13.05.2010	EUR	\$ 44,124,000.00	12.9	EURIBOR6MD	0.28
13.05.2010	EUR	\$ 48,475,000.00	12.9	LIUSD6MD	0.49
06.07.2010	USD	\$ 100,000,000.00	24.8	WBSCLUS6	0.01
06.07.2010	USD	\$ 200,000,000.00	24.8	LIUSD6MD	0.28
06.07.2010	USD	\$ 200,000,000.00	29.5	LIUSD6MD	0.28
29.06.2010	EUR	\$ 84,968,126.45	29.5	WBSLREUR	1.05
13.08.2010	EUR	\$ 5,515,500.00	13.2	EURIBOR6MD	0.05
13.08.2010	EUR	\$ 7,445,925.00	13.2	EURIBOR6MD	0.27
13.08.2010	EUR	\$ 8,273,250.00	13.2	EURIBOR6MD	1.05
13.08.2010	EUR	\$ 11,031,000.00	13.2	EURIBOR6MD	0.27

13.08.2010	EUR	\$ 11,031,000.00	13.2	EURIBOR6MD	0.90
27.08.2010	EUR	\$ 21,274,077.73	17.6	FIXED	5.00
18.10.2010	USD	\$ 20,999,999.98	9.1	LIUSD6MD	1.62
25.11.2010	EUR	\$ 11,031,000.00	21.5	FIXED	3.86
28.12.2010	EUR	\$ 51,093,385.80	12.0	FIXED	2.89
28.12.2010	EUR	\$ 40,540,066.71	20.0	FIXED	2.75
05.04.2011	USD	\$180,000,000.00	27.7	LIUSD6MD	0.48
05.04.2011	EUR	\$ 96,852,180.00	27.7	EURIBOR6MD	0.48
22.06.2011	JPY	\$ 39,520,064.11	25.0	FIXED	1.20
04.07.2011	EUR	\$ 7,170,150.00	14.0	EURIBOR6MD	0.67
04.07.2011	EUR	\$ 13,105,601.35	14.0	LIUSD6MD	0.80
04.07.2011	EUR	\$ 13,237,200.00	14.0	EURIBOR6MD	0.91
04.07.2011	EUR	\$ 15,000,000.00	14.0	LIUSD6MD	1.16
04.07.2011	EUR	\$ 17,649,600.00	14.0	EURIBOR6MD	1.23
04.07.2011	EUR	\$ 24,914,700.00	14.0	LIUSD6MD	1.52
04.07.2011	EUR	\$ 27,577,500.00	14.0	EURIBOR6MD	0.70
04.07.2011	EUR	\$ 27,577,500.00	14.0	EURIBOR6MD	1.13
04.07.2011	EUR	\$ 27,577,500.00	14.0	EURIBOR6MD	1.16
31.10.2011	EUR	\$ 17,820,000.00	9.6	LIUSD6MD	0.69
31.10.2011	EUR	\$ 19,256,920.00	9.6	LIUSD6MD	0.75
31.10.2011	EUR	\$ 34,747,650.00	9.6	EURIBOR6MD	0.27
31.10.2011	EUR	\$ 38,608,500.00	9.6	EURIBOR6MD	0.52
05.12.2011	USD	\$ 82,917,508.00	25.0	WBSCLUS6A98	0.49
05.12.2011	EUR	\$ 22,343,665.65	25.0	WBVSLEUR6A09	0.49
05.12.2011	USD	\$ 59,644,031.55	27.5	LIUSD6MD	0.46
05.12.2011	EUR	\$ 76,444,830.00	27.5	WBVSLEUR6A09	0.47
09.12.2011	EUR	\$ 41,366,250.00	13.5	EURIBOR6MD	0.69

09.12.2011	EUR	\$ 47,448,947.37	13.5	FIXED	3.50
09.05.2012	EUR	\$ 22,062,000.00	13.6	EURIBOR6MD	0.79
09.05.2012	EUR	\$ 27,577,500.00	13.6	EURIBOR6MD	0.75
09.05.2012	EUR	\$ 33,093,000.00	13.6	EURIBOR6MD	1.13
09.05.2012	EUR	\$ 41,917,800.00	12.2	EURIBOR6MD	1.18
09.05.2012	EUR	\$ 45,454,500.00	12.2	LIUSD6MD	1.62
29.05.2012	EUR	\$ 27,577,500.00	7.5	FIXED	1.44
29.05.2012	EUR	\$ 32,000,000.00	7.5	FIXED	1.72
28.06.2012	EUR	\$ 55,155,000.00	8.5	FIXED	1.62
28.06.2012	EUR	\$ 55,155,000.00	8.5	FIXED	1.94
28.06.2012	EUR	\$ 65,600,000.00	8.5	FIXED	2.24
28.06.2012	EUR	\$ 38,862,000.00	12.3	LIUSD6MD	1.22
28.06.2012	EUR	\$ 49,639,500.00	12.3	EURIBOR6MD	0.91
28.06.2012	EUR	\$ 16,546,500.00	10.3	EURIBOR6MD	1.24
28.06.2012	EUR	\$ 16,546,500.00	10.3	FIXED	2.22
28.06.2012	EUR	\$ 25,906,000.00	10.3	LIUSD6MD	1.69
28.06.2012	EUR	\$ 25,906,000.00	10.3	FIXED	2.58
28.06.2012	EUR	\$ 26,156,187.37	10.3	FIXED	7.70
04.12.2012	USD	\$125,000,000.00	12.1	FIXED	3.00
04.12.2012	USD	\$100,000,000.00	10.2	SWAP USD	2.72
20.12.2012	EUR	\$130,170,000.00	8.6	LIUSD6MD	0.69
20.12.2012	EUR	\$135,170,000.00	8.6	FIXED	2.35
26.03.2013	USD	\$ 42,725,462.00	10.0	LIUSD6MD	1.50
25.04.2013	EUR	\$ 11,031,000.00	11.5	EURIBOR6MD	0.69
25.04.2013	EUR	\$ 11,031,000.00	11.5	FIXED	0.98
25.04.2013	EUR	\$ 44,124,000.00	11.5	FIXED	0.73

24.04.2013	EUR	\$ 16,546,500.00	11.5	EURIBOR6MD	0.74
24.04.2013	EUR	\$ 20,000,000.00	11.5	LIUSD6MD	0.73
24.04.2013	EUR	\$ 20,000,000.00	11.5	LIUSD6MD	0.88
24.04.2013	EUR	\$ 27,577,500.00	11.5	EURIBOR6MD	0.74
24.04.2013	EUR	\$ 33,611,200.01	11.5	EURIBOR6MD	0.73
03.06.2013	EUR	\$ 27,577,500.00	10.1	EURIBOR6MD	0.19
03.06.2013	EUR	\$ 27,577,500.00	10.1	EURIBOR6MD	0.21
03.06.2013	EUR	\$ 33,093,000.00	10.1	EURIBOR6MD	0.32
06.05.2013	USD	\$ 15,000,000.00	29.9	LIUSD6MD	1.00
06.05.2013	USD	\$ 15,167,500.00	29.8	WBSCLUS6A98	0.80
22.08.2013	USD	\$ 25,000,000.00	29.6	LIUSD6MD	0.47
15.07.2013	EUR	\$ 27,577,500.00	9.0	EURIBOR6MD	0.52
16.09.2013	EUR	\$ 55,155,000.00	9.9	FIXED	2.04
18.09.2013	EUR	\$ 27,577,500.00	9.5	FIXED	1.93
18.09.2013	EUR	\$ 27,577,500.00	9.5	FIXED	2.01
18.09.2013	EUR	\$ 33,680,000.00	9.5	FIXED	2.69
18.09.2013	EUR	\$ 34,395,000.00	9.5	FIXED	2.95
10.10.2013	EUR	\$110,310,000.00	10.2	FIXED	3.20
24.10.2013	EUR	\$ 55,155,000.00	9.5	EURIBOR6MD	0.65
24.10.2013	EUR	\$ 55,155,000.00	9.5	EURIBOR6MD	0.74
03.12.2013	EUR	\$ 6,728,910.00	9.6	FIXED	1.54
03.12.2013	EUR	\$ 11,031,000.00	9.6	EURIBOR6MD	0.74
03.12.2013	EUR	\$ 14,207,928.00	9.6	FIXED	0.97
03.12.2013	EUR	\$ 14,372,841.45	9.6	EURIBOR6MD	0.33
03.12.2013	EUR	\$ 38,608,500.00	9.6	FIXED	0.97
04.12.2013	EUR	\$ 27,577,500.00	9.5	EURIBOR6MD	0.74
04.12.2013	EUR	\$ 27,577,500.00	9.5	FIXED	0.65

04.12.2013	EUR	\$ 31,025,000.00	9.5	FIXED	0.89
04.12.2013	EUR	\$ 34,542,500.00	9.5	LIEUR6MD	0.66
04.12.2013	EUR	\$ 55,155,000.00	9.5	EURIBOR6MD	0.41
19.12.2013	EUR	\$ 73,356,150.00	7.8	EURIBOR6MD	0.32
30.12.2013	USD	\$110,000,000.00	15.4	FIXED	3.95
19.12.2013	EUR	\$ 67,865,000.00	12.2	LIUSD6MD	0.78
26.06.2014	EUR	\$165,465,000.00	10.5	FIXED	3.10
02.12.2014	EUR	\$ 27,577,500.00	12.1	FIXED	1.73
10.07.2014	EUR	\$ 4,458,730.20	17.8	WBVSLEUR6A09	0.27
02.10.2014	USD	\$129,593,912.83	15.4	WBVSLUSD6A09	0.30
08.07.2014	EUR	\$ 6,600,000.00	9.5	LIUSD6MD	0.33
08.07.2014	EUR	\$ 11,031,000.00	9.5	EURIBOR6MD	0.63
08.07.2014	EUR	\$ 18,636,000.00	9.5	FIXED	2.67
08.07.2014	EUR	\$ 19,800,000.00	9.5	FIXED	2.75
08.07.2014	EUR	\$ 22,062,000.00	9.5	FIXED	1.32
08.07.2014	EUR	\$ 38,608,500.00	9.5	FIXED	1.08
22.08.2014	USD	\$ 30,475,000.00	27.6	LIUSD6MD	0.47
07.11.2014	EUR	\$ 24,724,000.00	9.5	FIXED	2.72
07.11.2014	EUR	\$ 88,248,000.00	9.5	FIXED	0.64
07.11.2014	EUR	\$ 88,248,000.00	9.5	FIXED	1.07
07.11.2014	EUR	\$123,920,000.00	8.1	LIUSD6MD	0.60
06.11.2014	EUR	\$110,310,000.00	9.5	DIBSLIBOR1	1.00
10.12.2014	EUR	\$ 27,577,500.00	12.1	FIXED	1.73

Source: UT

RISK MANAGEMENT

In order to increase fiscal discipline, transparency, accountability and effectiveness in the management of debt and claims, Law No. 4749 implemented an active risk management strategy and took measures to limit the potential effects of guarantees and on-lent loans provided by the Treasury. In this context, to establish the necessary legal and organizational infrastructure for the management of public debt and receivables on the basis of risk analysis, a Risk Management Unit was established. In addition, a Debt and Risk Management Committee was set up within the Undersecretariat of the Treasury to ensure coordination and efficiency in debt management. Within this framework, the debt management strategy is executed in line with the main principles of transparency, accountability and predictability.

With the help of this institutional infrastructure, the risk management unit has been fully operational since 2004 and continues to perform its routinely assigned duties, such as providing monthly and quarterly risk monitoring and analysis notes to the Debt and Risk Management Committee. Monthly and annual debt management reports have been published to discuss the developments in the area of public debt and risk management. Furthermore, the Risk Management Unit developed a debt strategy analysis model for the medium-term and produces valuation of the portfolio of explicit contingent liabilities of the state. Also, the Risk Management Unit produces cash flow reports, risk indicator reports and medium and long-term borrowing scenarios in order to evaluate financial risks.

The operational risk management activities regarding debt, cash and receivables management have been implemented since 2008. The existing operational risk management framework has been developed and used as an input in the completion process of Emergency and Business Continuity Plan ("EBCP"). The generation of business impact analysis and business flowcharts for critical processes have been used to improve institutional mechanisms and helped to develop the integrated strategies. In that regard, the finalization of EBCP has been a milestone regarding the management of operational risks.

The borrowing strategy aims to enhance transparency and the effectiveness of public debt management at an appropriate cost with a prudent level of risk. This is achieved through strategic benchmarking which has been used since 2004. Major components of this strategy, which are determined for a three-year period with a rolling basis in accordance with the aforementioned cost and risk analysis, are as follows for the period 2015-2017:

- To borrow mainly in TL
- To use fixed rate TL instruments as the major source of domestic cash borrowing and decrease the share of debt which has an interest rate refixing period of less than 12 months
- To increase the average maturity of domestic cash borrowing taking market conditions into consideration and decrease the share of debt maturing within 12 months
- To keep a certain level of cash reserve in order to reduce the liquidity risk associated with cash and debt management

Tight fiscal policies and the implementation of strategic benchmarks have made an effective debt management structure possible, which in turn has reduced risk premiums.

Significant progress has been made in decreasing the public debt ratio. The general government nominal debt stock defined by EU standards to GDP ratio declined to 40.0% at the end of 2008 and increased to 46.1% in 2009 with the impact of the global financial and economic crisis. However, since then this ratio gradually improved and decreased to 33.5% at the end of 2014 due to stronger growth and positive budget performance. The 2015-2017 Medium Term Program sets EU defined debt stock to GDP targets of 31.8% by the end of 2015, 30.0% by the end of 2016 and 28.5% by the end of 2017. Moreover, as a result of borrowing policies aimed at reducing the sensitivity of debt stock to interest rate and foreign exchange rate fluctuations, the share of both floating rate and foreign currency denominated debt decreased gradually over the last decade. The share of floating rate debt stock in the Central Government debt stock fell to 34.8% in 2014 from 46.6% in 2009 and the duration of TL - denominated cash based domestic debt stock increased to 28.9 months from 7.5 months in the same period.

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