

THE REPUBLIC OF TURKEY



DEBT EXCHANGE & NEW BOND OFFERING INVESTOR PRESENTATION

September 6, 2006

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Section 1



TRANSACTION OVERVIEW

Transaction Overview

◆ The Transaction:

- Offer to Exchange Eligible Old USD Notes for a New USD Global 2016 Bond
- Cash Offer to sell New USD Global 2016 Bond

◆ Exchange Offer Pricing Mechanic

- **Main Variable:** New Issue Clearing Spread, to be determined via Modified Dutch Auction
- **Old Notes Pricing:** Reference Swap Rate + Old Bond Spreads
- **New Notes Pricing:** Reference Swap Rate + Clearing Spread

◆ Eligible Old Notes:

Notes	ISIN	Amount Outstanding	Old Bond Spread vs. Reference Swap Rate
Turkey 11.375% Notes due 2006	US900123AM23	US\$ 1,000,000,000	-0.30%
Turkey 10.000% Notes due 2007	XS0080403891	US\$ 600,000,000	0.10%
Turkey 10.500% Notes due 2008	US900123AQ37	US\$ 1,100,000,000	0.20%
Turkey 9.875% Notes due 2008	US900123AP53	US\$ 1,350,000,000	0.30%
Turkey 12.000% Notes due 2008	US900123AH38	US\$ 599,860,000	0.45%
Turkey 12.375% Notes due 2009	US9001123AJ93	US\$ 1,250,000,000	0.80%
Turkey 11.750% Notes due 2010	US900147AB51	US\$ 1,500,000,000	1.10%

Transaction Timetable

Date	Time (New York Time)	Event
September 6		<ul style="list-style-type: none"> ◆ Commencement of Offer ◆ Announcement of Old Bond Spreads
September 12	5:00 PM	◆ Announcement of Minimum Clearing Spread for New 2016 Notes
September 13	11:00 AM	◆ Expiration of Offer
September 14	8:00 AM	◆ Announcement of the Clearing Spread
September 14	11:00 AM	◆ Fixing of Reference Swap Rates; Announcement of Results
September 26		◆ Settlement of New Notes and any Cash Payments

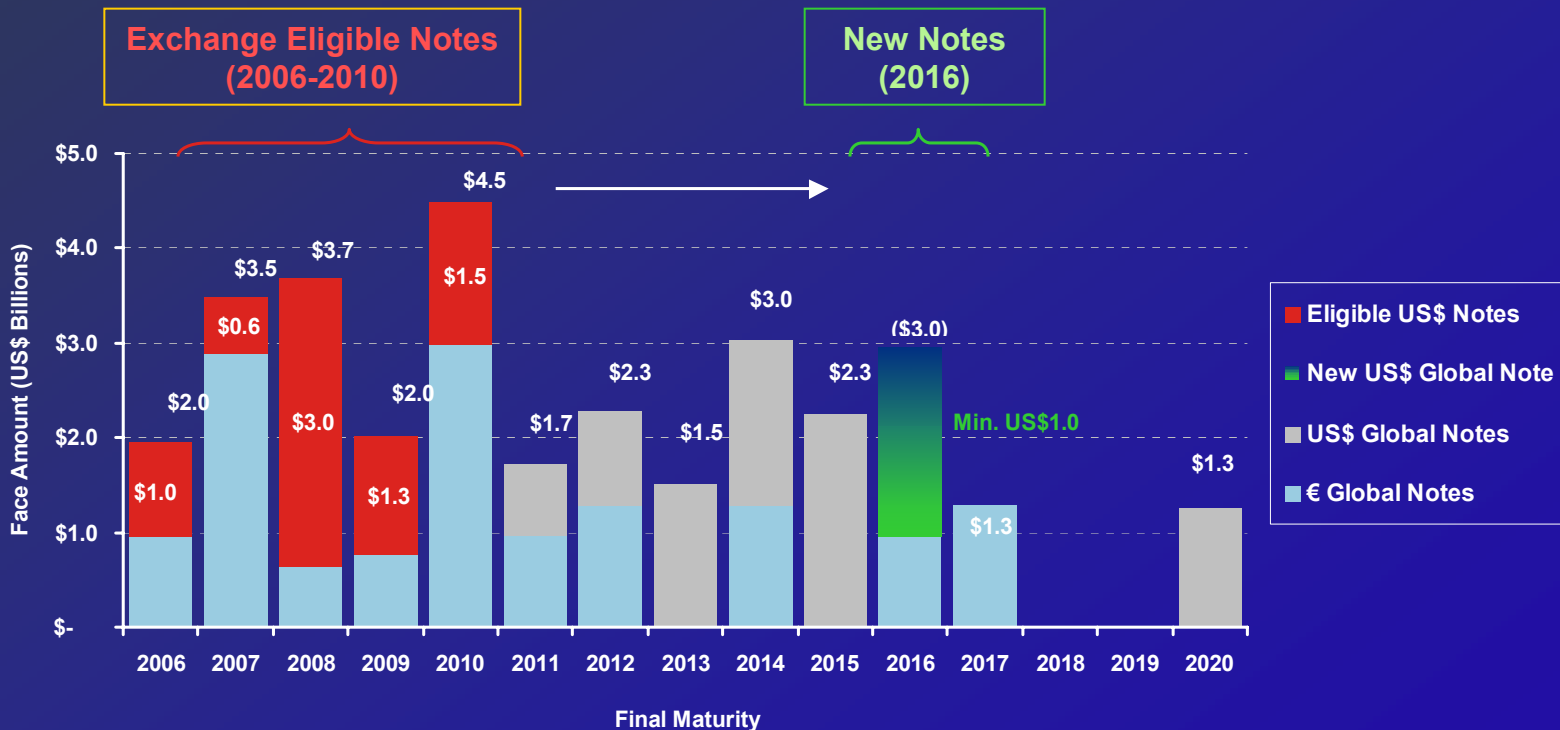
September-2006								
S	M	T	W	T	F	S		
					1	2		Commence Offer
								Announcement of Old Bond Spreads
3	4	5	 6	7	8	9		Announcement of Min. Clearing Spread
10	11	 12	 13	 14	15	16		Expiration
17	18	19	20	21	22	23		Announcement of Clearing Spread / Fix Swap Rates / Announcement of Results
24	25	 26	27	28	29	30		Settlement

Transaction Rationale

◆ Transaction Rationale: Exchange & New Cash Offering

- Extends the duration of Turkey's USD debt maturity profile
- Establishes a new and liquid 10-Year Global USD benchmark
- Commences the application of active liability management strategies to optimize borrowing strategy

Republic of Turkey: US\$ and € Global Notes Maturity Profile



Background to Exchange Offer and New Notes

- ◆ **Issuer:** Republic of Turkey (“Republic”)
- ◆ **Dealer-Managers:** Citigroup and Goldman Sachs International
- ◆ **Issuer Ratings:** Ba3/BB-/BB-
- ◆ **Eligible Securities:** \$7.4 billion face value of US\$ Notes (“Old Notes”)
- ◆ **New Notes:** US\$ Global Notes due 2016 (Minimum Size US\$1 Billion)
- ◆ **Global Note Offering:**
 - Issuance of New Notes in exchange for Old Notes (“Invitation”); and
 - Issuance of New Notes for Cash (“Cash Offering”)
- ◆ **Offers:** Non-Competitive Offers or Competitive Offers (submitted above the Minimum Clearing Spread)
- ◆ **Acceptance:** All accepted offers will be awarded New Notes priced at the Clearing Spread
- ◆ **Proration:** Non-competitive Offers of any series of Old Notes accepted in the exchange will not be prorated; Competitive Offers are subject to proration.
- ◆ **Eligibility:**
 - Holders of greater than \$100,000 of a series in eligible jurisdictions may submit offers to exchange
 - Holders with an aggregate holding (in all positions) of less than \$100,000 of a series may submit offers to be repurchased for cash
 - If a Holder with a position of greater than \$100,000 is pro-rated to less than this amount, the Holder will no longer be considered Eligible for the exchange
- ◆ **Submission:**
 - Euroclear, Clearstream, or DTC (directly or via custodian)
 - Instructions must be delivered and notes must be blocked by 11:00AM NYT on Expiration Date (Sept. 13)

Submission of Offer by Investors

- ◆ A holder may submit a :
 - **Non-Competitive Offer**
 - Holder does not specify a minimum spread
 - Holders who submit Non-Competitive Offers agree to exchange their Old Notes for New Notes priced at a spread equal to the Minimum Clearing Spread or higher, as may be determined in the auction
 - **Competitive Offer**
 - Holder specifies the minimum spread that the holder would accept as the Clearing Spread for the New Notes
- ◆ Valid Offers:
 - Submitted electronically only through Euroclear, Clearstream, or DTC according to the rules of such systems
 - Holders who are not direct participants in the above mentioned systems should instruct their custodians to submit on their behalf and Holders are subject to all rules or deadlines imposed by their custodians
 - Offers must be received by the relevant clearing systems before 11:00 AM NYT on the Expiration Date (Sept. 13)

Submission of Offers: Clearing Systems Specifics

◆ DTC

- Holders must arrange for a direct participant in DTC to submit their offers to DTC electronically through DTC's Automated Tender Offer Program ("ATOP") and follow the procedures for book-entry transfer at or prior to 11:00 AM., New York City time, on the Expiration Date. Only a direct participant in DTC may submit an offer through ATOP
- To validly submit for exchange Old Notes through ATOP, a holder must, among other things, indicate on a Series by Series basis: (i) the aggregate principal amount of Old Notes it is submitting of each Series and (ii) the Spread at which such holder is willing to undertake the exchange. If a holder does not specify an Spread or specifies an Spread equal to or less than the Minimum Clearing Spread, such holder will be deemed to have submitted a non-competitive offer

◆ Euroclear / Clearstream Luxembourg

- Holders must arrange for a direct participant in Euroclear or Clearstream, Luxembourg to deliver their offers to Euroclear or Clearstream, Luxembourg in accordance with the deadlines specified by Euroclear or Clearstream, Luxembourg. Only a direct participant in Euroclear or Clearstream, Luxembourg may submit an offer to Euroclear or Clearstream, Luxembourg

◆ Luxembourg

- Holders may elect to submit Old Notes for exchange by surrendering such Old Notes and submitting a Letter of Transmittal by courier, hand delivery or facsimile transmission to the Luxembourg Exchange Agent, with a copy to the Exchange Agent, at their respective addresses specified on the back cover of the Invitation Memorandum

◆ Custodians

- If the Old Notes are held through a custodian, the holder may not submit an offer directly. It should contact that custodian to submit an offer on its behalf

Acceptance of Offers and Proration

◆ Acceptance of Offers

- Valid offers submitted at or below the Minimum Clearing Spread are eligible to be accepted for exchange
- Republic can choose to not accept any offers of any series
- If the Republic accepts any notes for exchange the minimum size of the New 2016 Notes will need to be at least \$1 billion, with notes issued via exchange and/or new cash offering
- If the Republic accepts for exchange any old notes in respect of a particular series it will also accept for purchase those old notes of such series tendered by cash eligible holders

◆ Proration

- Non-Competitive Offers: Will not be prorated
- Competitive Offers: Subject to Proration*

(*) The Republic may set a separate proration factor for each series of Old Notes. Such factor will be applied to all accepted competitive offers of such series. The Republic may choose to accept only Non-Competitive Offers of any series of notes, even if Competitive Offers are accepted of other series of notes.

Value Received in Exchange

Exchange Offer Consideration (if Accepted): **New Notes + Cash**

- Amount New Notes: Amount of Old Notes x Applicable Exchange Ratio¹, rounded down to \$1,000 increments; and
- Amount of cash: Accrued interest + Cash rounding amount (to reach even denomination)

Cash Eligible Holder Consideration (if Accepted) per \$1,000: **Cash Only**²

- Amount of cash: Amount of Old Notes x (Old bond price + Accrued Interest)

¹ Exchange Ratio: Old Note Price / New Note Price (rounded to the 6th decimal place)

² Only holders with an aggregate position of less than \$100,000 will be eligible for cash repurchase

Contact Information

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Section 2



TURKEY: RECENT DEVELOPMENTS AND PROSPECTS

Presentation Overview

- ◆ **Firm policy measures have been taken in view of recent global developments**
- ◆ Efforts to stabilize the currency and restore investor confidence are showing good results
- ◆ Strong fundamentals and a firm commitment to structural reforms underpin Turkey's positive outlook

The Major Factors Influencing Turkish Asset Prices Recently

Monetary tightening in developed countries led to;

- ◆ Reallocation of portfolio investments,
- ◆ Reassessment of Emerging Market risks,

and resulted in;

- ◆ Capital outflows from Emerging Markets,
- ◆ Shifting portfolios from equities to fixed income and money market instruments,
- ◆ **Triggering a sharp fall in Emerging Market assets prices (equities, external and local bonds and currencies)**

Policy Measures Taken in view of Global Developments

Turkey timely responded to recent global developments through;

- ◆ Strengthening the fiscal policy framework
- ◆ Monetary tightening
- ◆ Prudent debt management policy and flexibility
- ◆ Increasing the pace of structural reforms

Fiscal Policy

Strong commitment to the existing key pillars:

- ◆ Primary surplus target of 6.5% of GNP for the consolidated public sector
- ◆ Social Security Institutions' total deficit to stay below 4.5% of GNP

Introducing a new pillar:

- ◆ Saving revenue over-performance
 - Setting a ceiling for the non-interest expenses of the Central Government and Social Security institutions

Monetary Policy

- ◆ Increasing CBT's overnight borrowing rate by 425 bps to 17.50%
- ◆ Increasing CBT's lending rate by 625 bps to 22.50%
- ◆ Proactive liquidity management
 - Deposit Purchase Auctions of 1 and 2 week maturity
 - Foreign Exchange Interventions

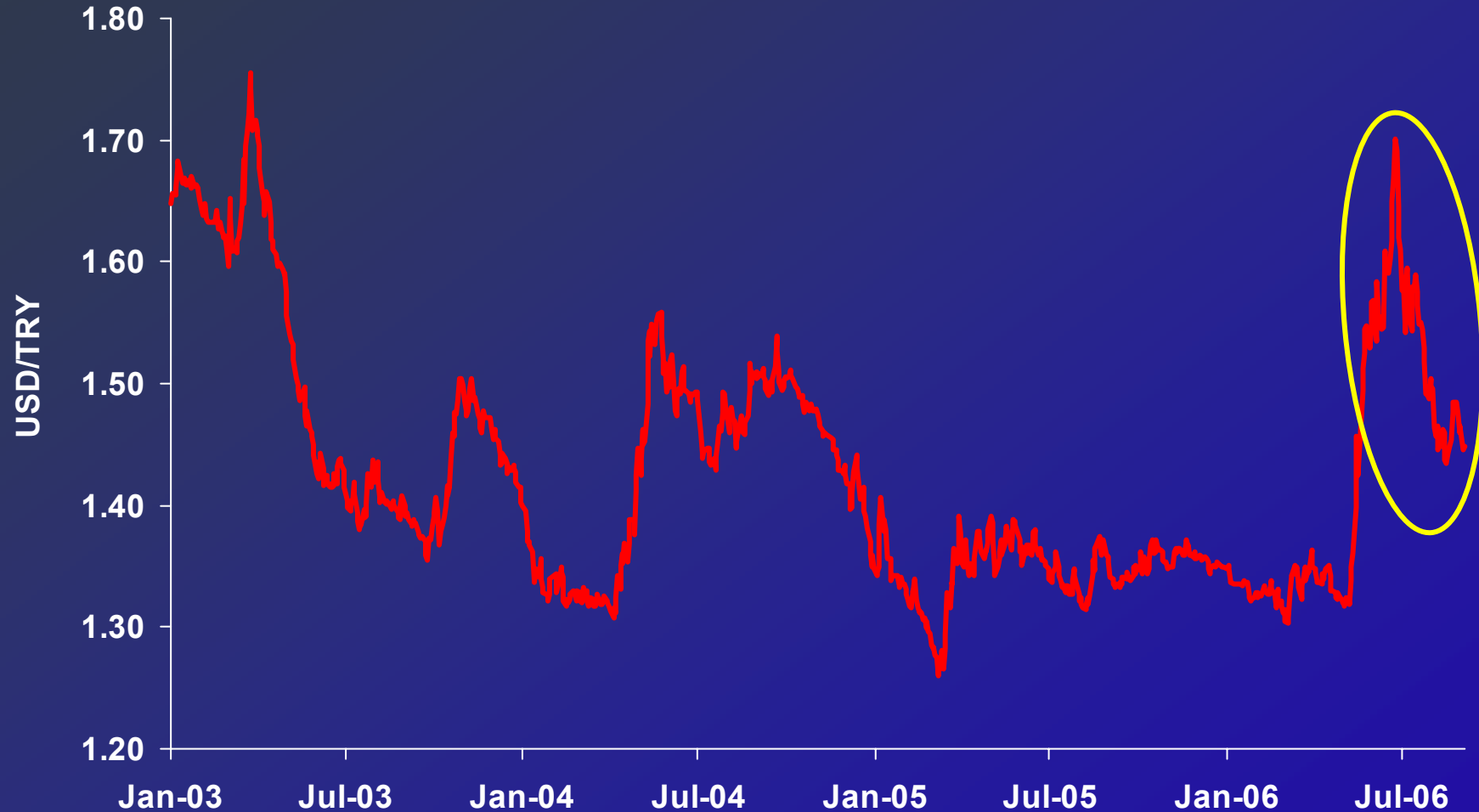
Debt Management

- ◆ Issuance policy in line with demand conditions
- ◆ Strengthening non-debt creating resources
- ◆ Close coordination with the monetary policy

Presentation Overview

- ◆ Firm policy measures have been taken in view of recent global developments
- ◆ **Efforts to stabilize the currency and restore investor confidence are showing good results**
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Foreign Exchange Rates



Source: CBRT.

(*) As of September 05, 2006

Interest Rates



(*) As of September 05, 2006

ISE Index



(*) As of September 05, 2006

FX Deposits of Retail Investors / Total Deposits



(*) As of August 18, 2006

Spreads on Turkey's External Debt Have Begun to Recover

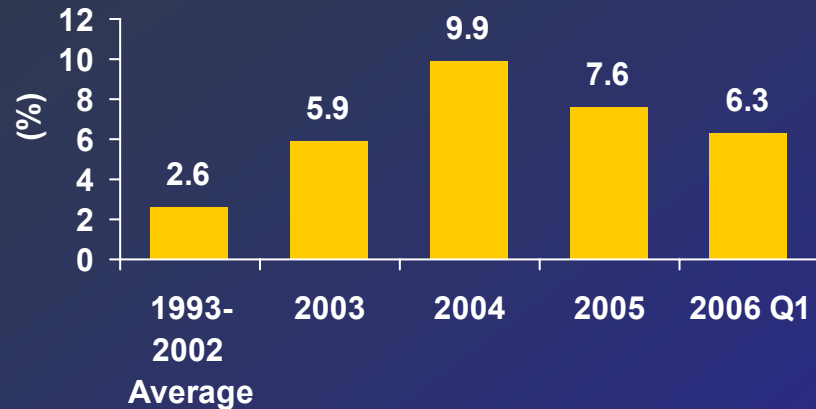


Presentation Overview

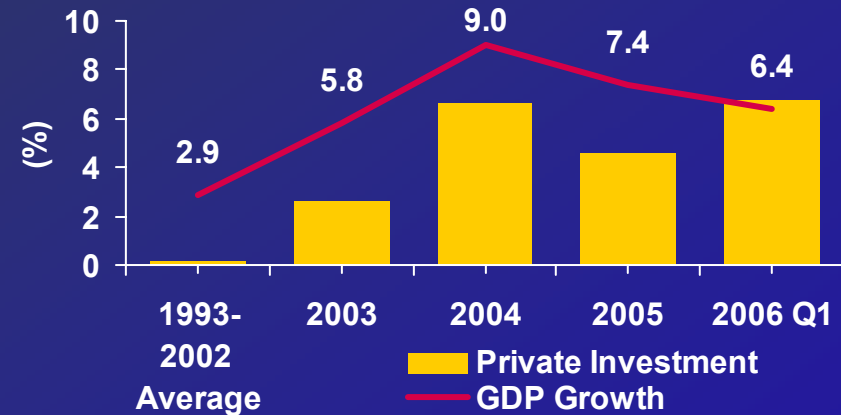
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Growth and Productivity

GNP Growth (YoY)



Contribution of Private Investment to Growth



Productivity Index in Total Manufacturing Industry

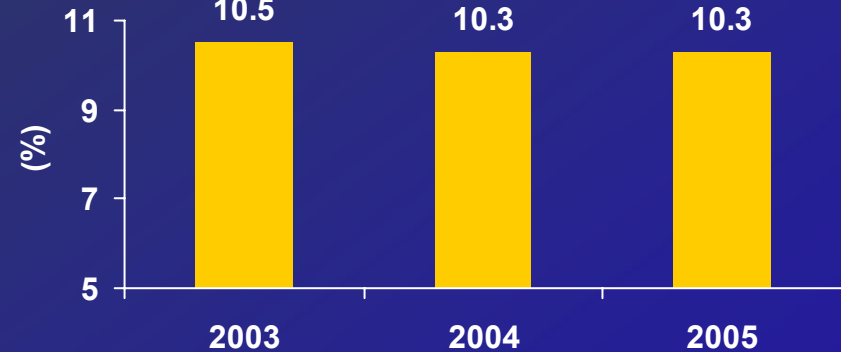


Key Features of Recent Labour Market Developments: Growing Number of Employed and Shrinking Role of Agriculture

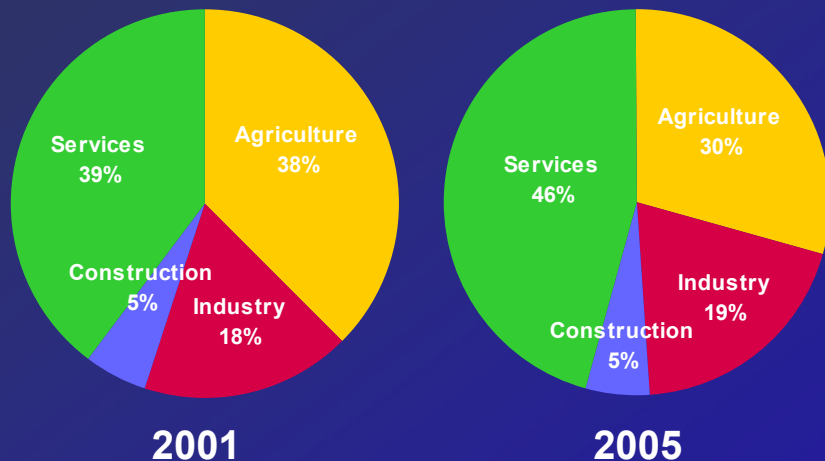
Total Employment



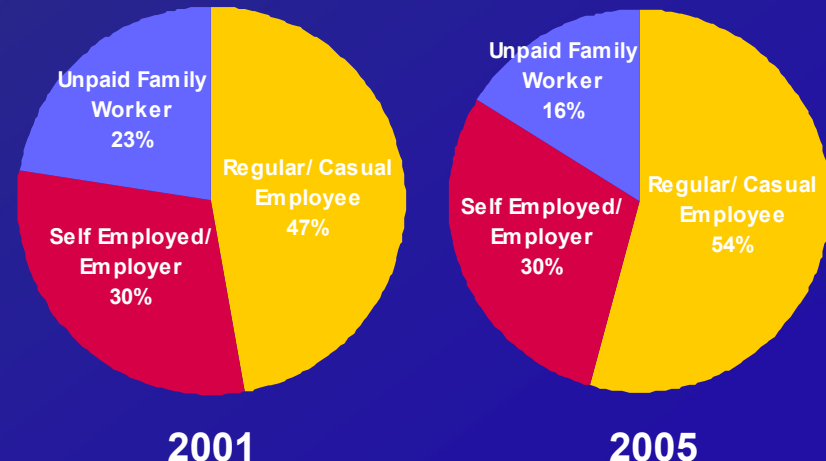
Unemployment Rate



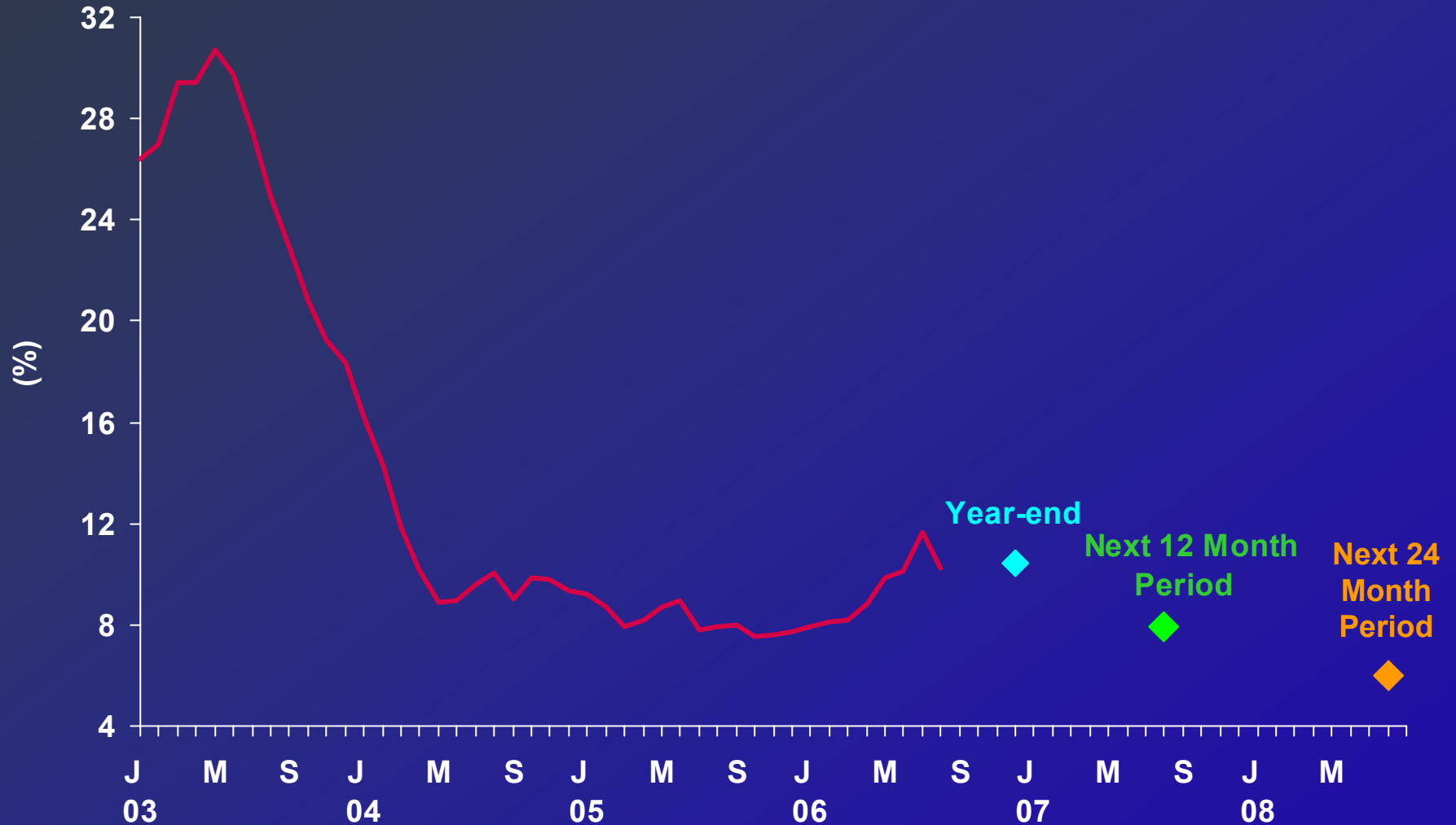
Distribution of Employment by Economic Activity (%)



Distribution of Employment by Employment Status (%)

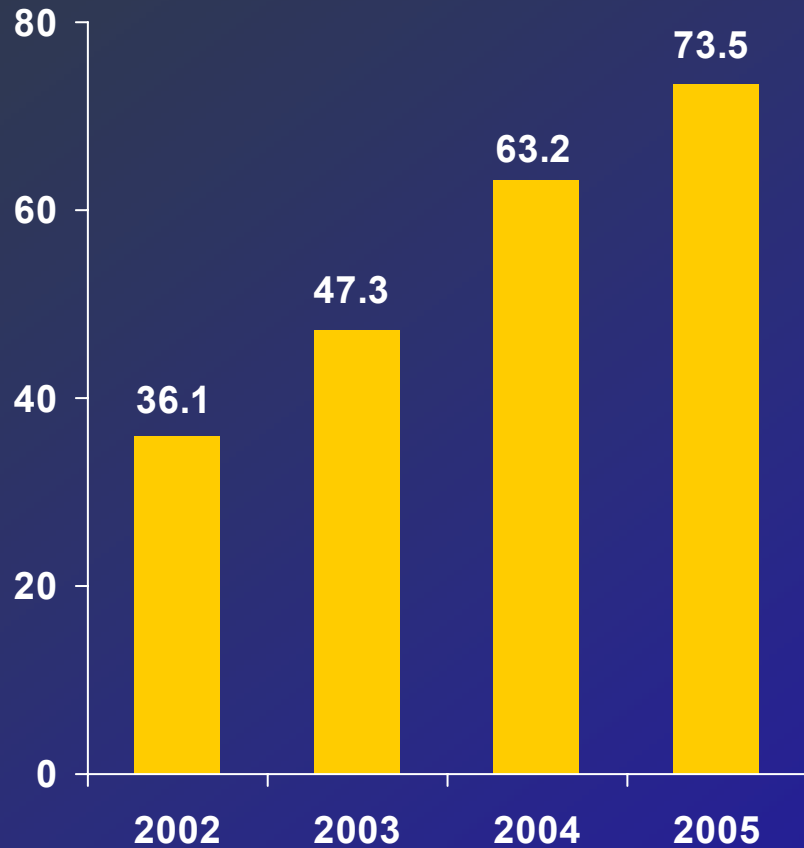


Annual Inflation and Expectations

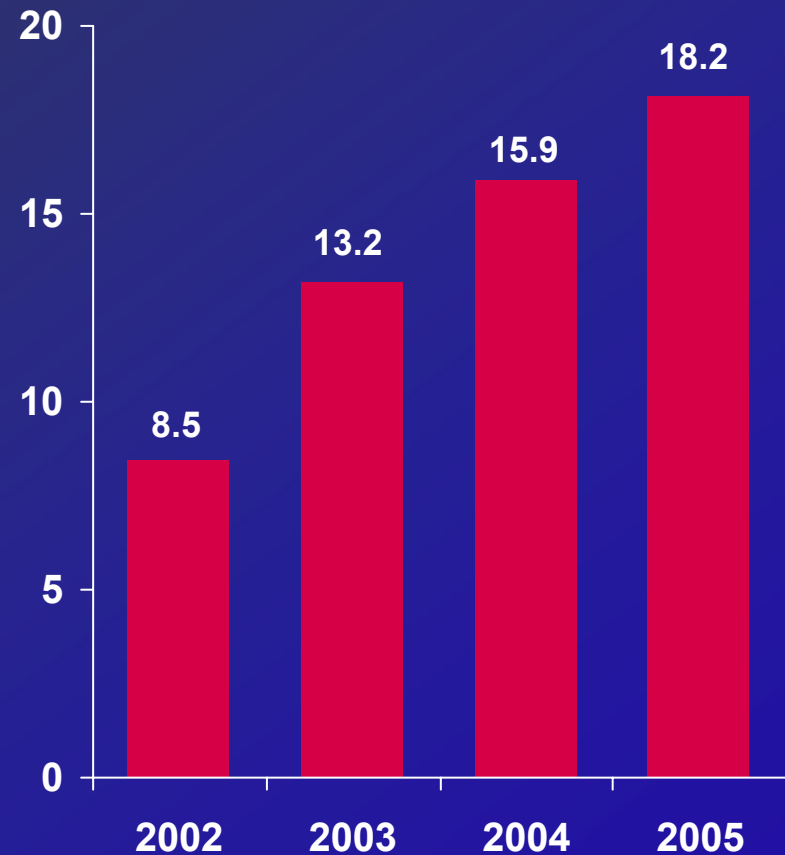


Exports and Tourism Revenues (Billion Dollars)

Exports

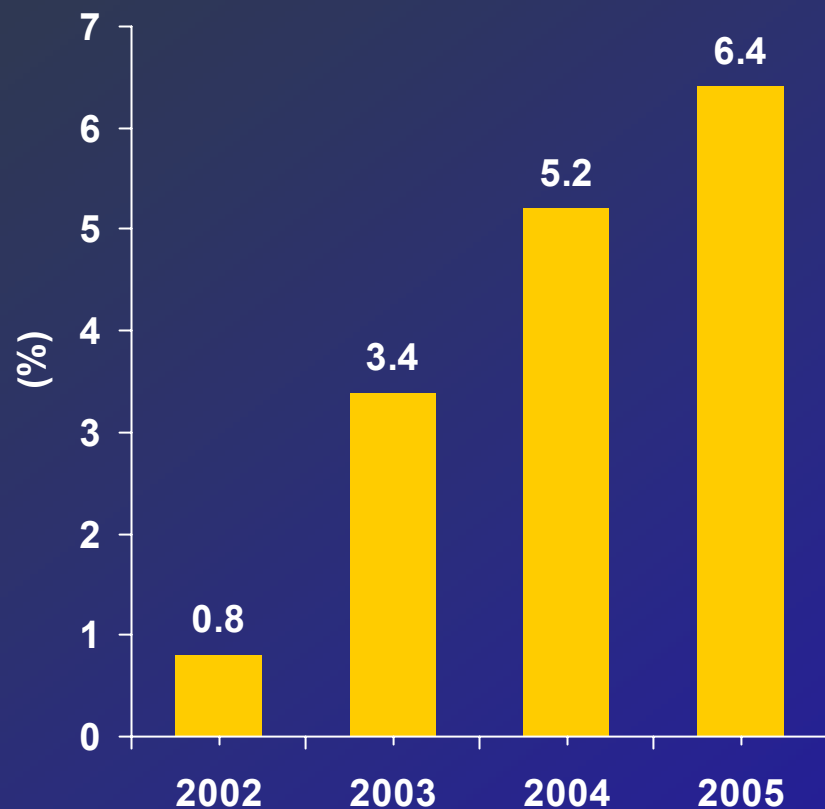


Tourism Revenues

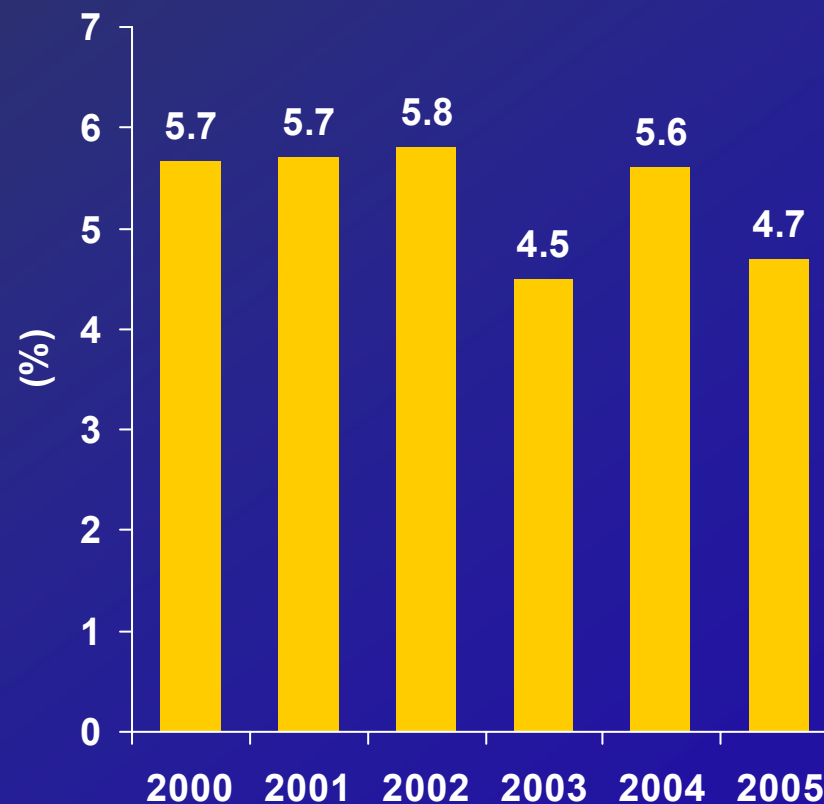


Current Account Deficit

Current Account Deficit (% of GNP)



Current Account Deficit in Eastern European Countries(*)

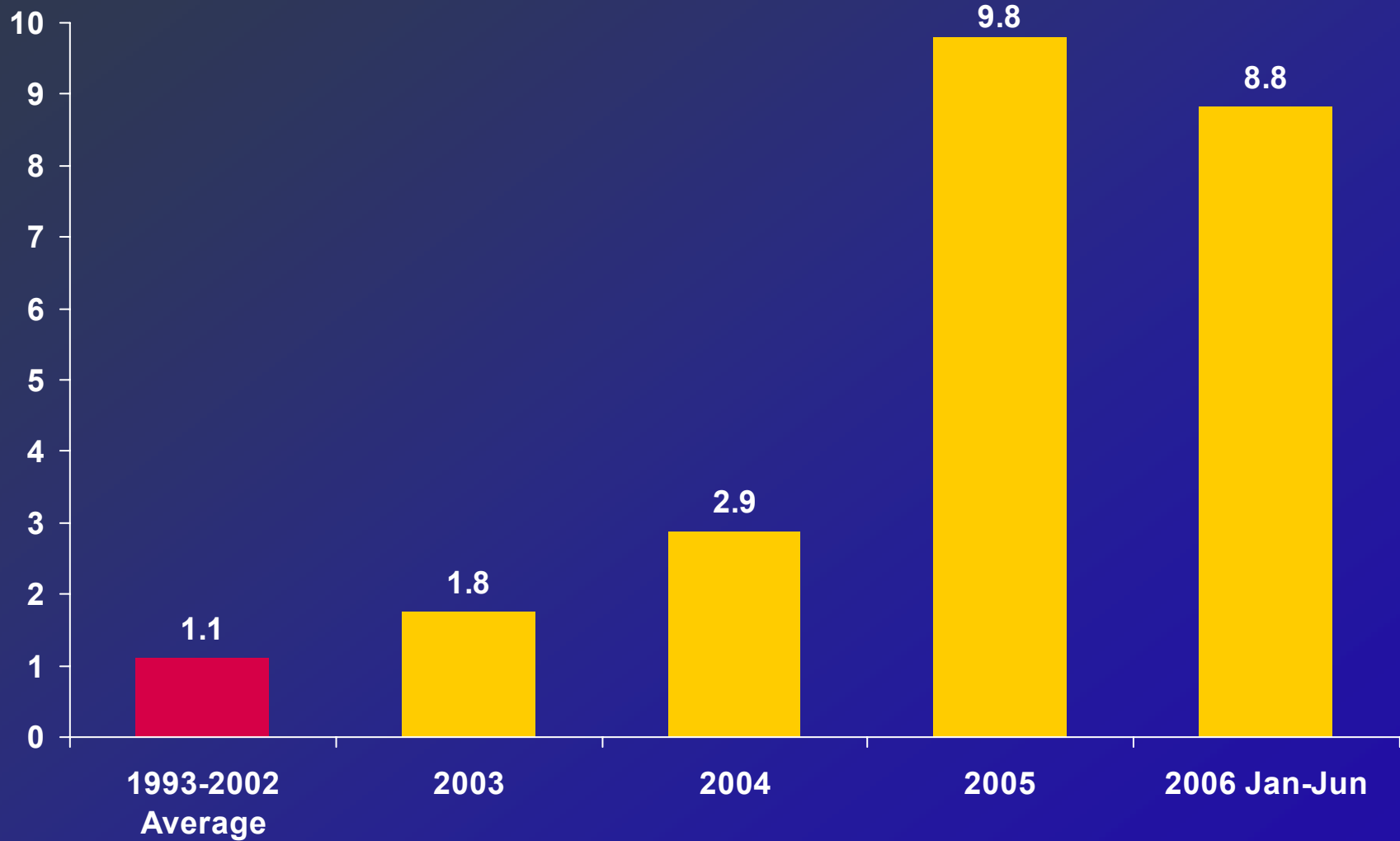


(*) Average of Current Account Deficits to GDP ratios for Poland, Hungary, Czech Republic and Slovakia.

Financing of Current Account Deficit (Billion USD)

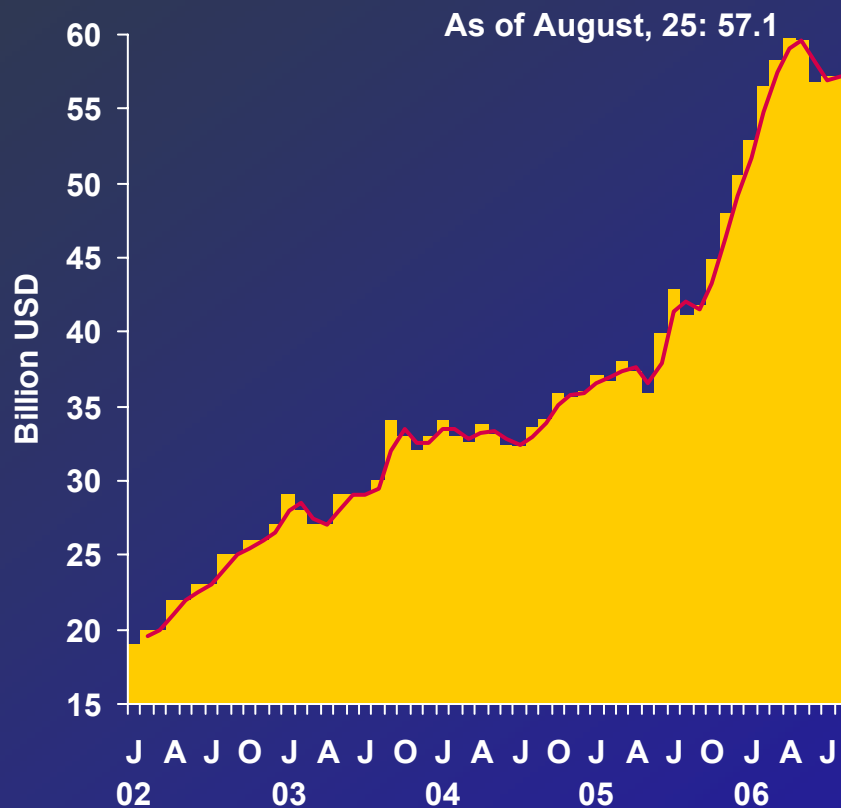
	2002	2003	2004	2005	2006 Jan-Jun
1. Current Account Balance	-1.5	-8.0	-15.6	-23.2	-18.7
2. Total Capital Inflows	7.6	7.1	14.2	38.8	22.5
– FDI Inflows	1.1	1.8	2.9	9.8	8.8
– External Borrowing of Non-Bank Private Sector (net)	1.9	2.3	7.7	14.2	13.9
– Other (net)	4.5	3.1	3.6	14.6	-0.2
3. Errors and Omissions	0.1	4.9	2.3	2.4	0.2
4. Change in FX Reserves	-6.2	-4.0	-0.8	-17.8	-4.1

Foreign Direct Investments (Billion USD)

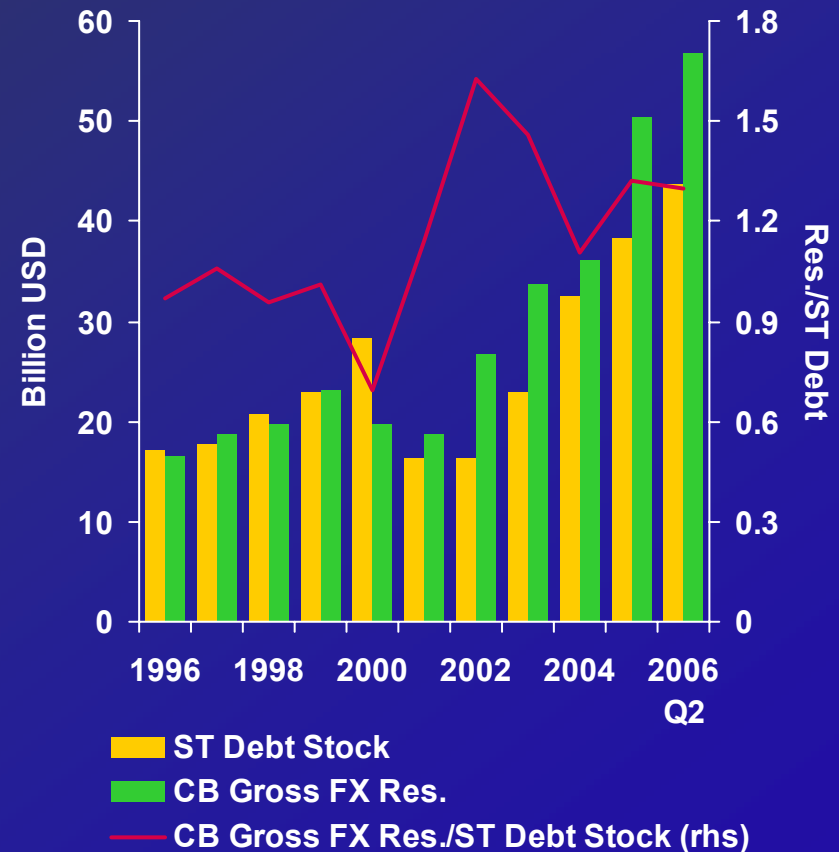


Turkey's External Liquidity Remains Ample

Central Bank's Gross FX Reserves

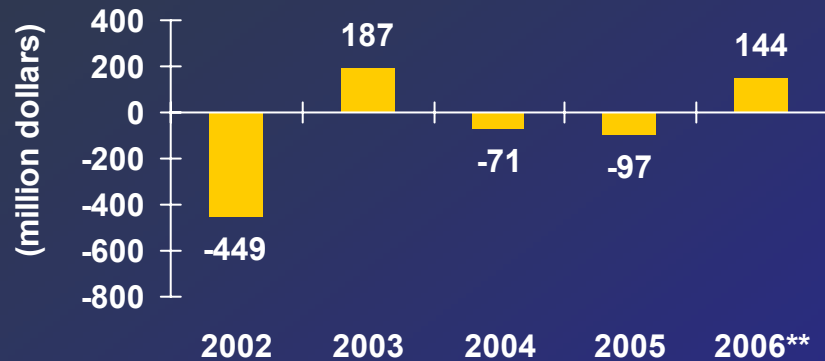


Central Bank's Gross FX Reserves and Short-Term External Debt Stock

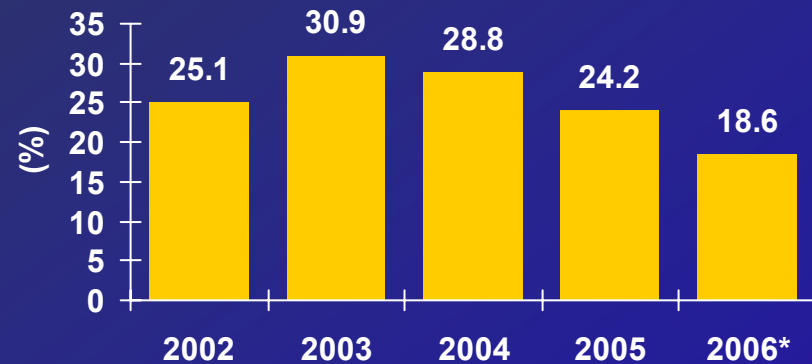


Key Indicators Point to a Healthy Banking Sector

Banking Sector FX Positions



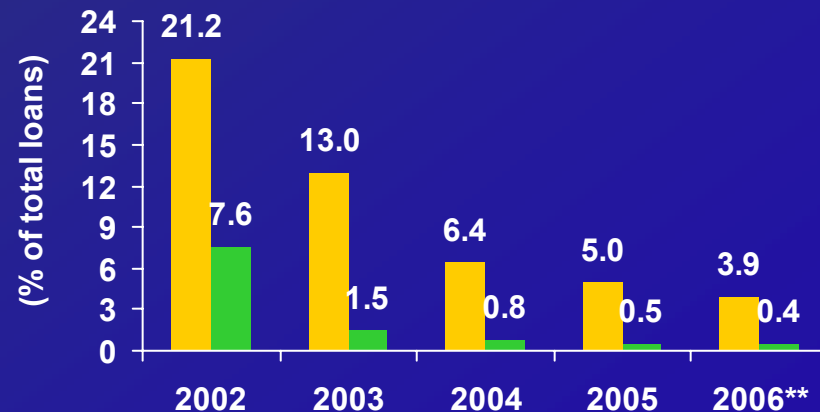
High Capital Adequacy



Rising Financial Intermediation



Improving Asset Quality

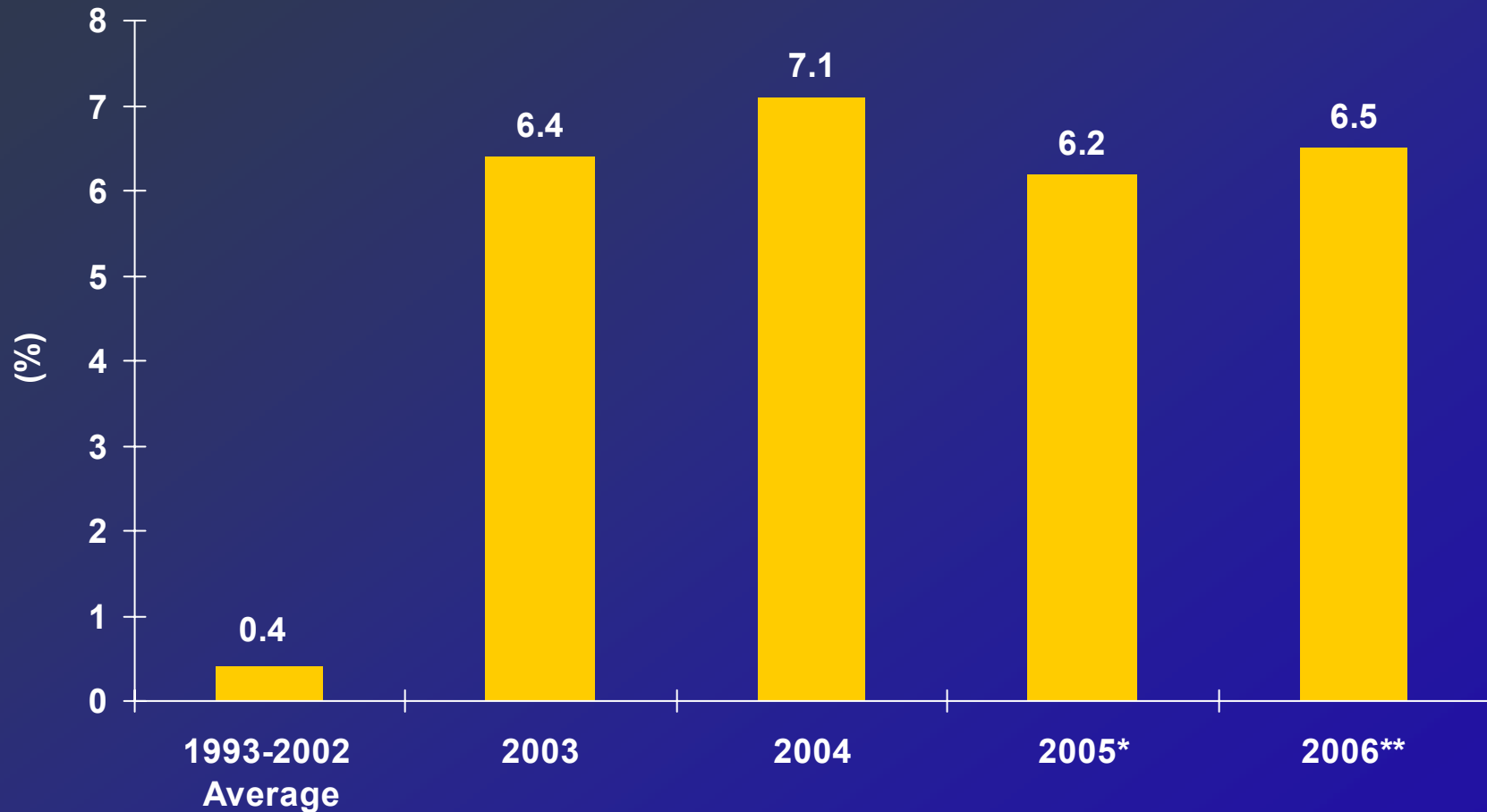


*As of June 2006

**As of August 25, 2006

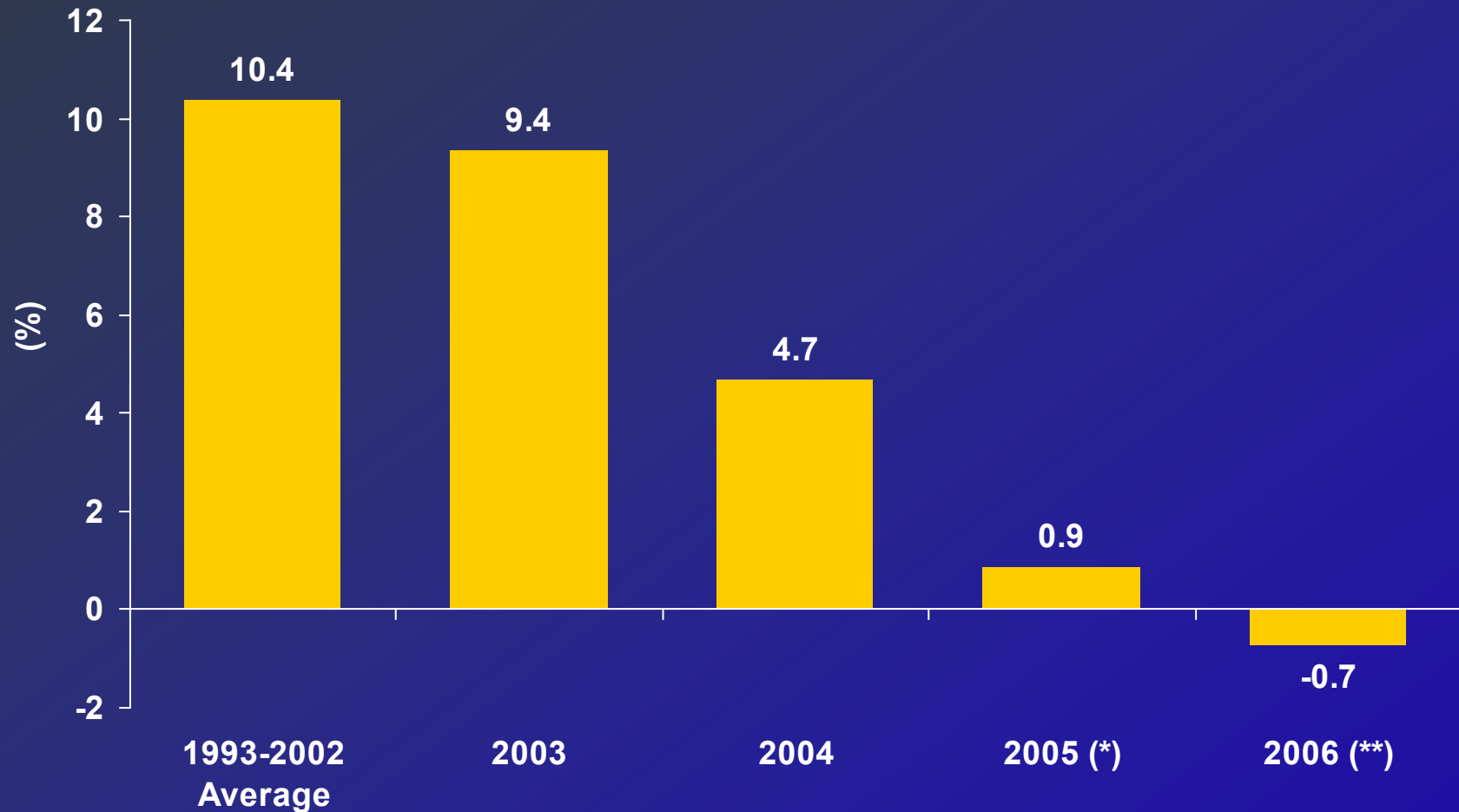
■ Gross NPL ■ Net NPL (gross-provisions)

Public Sector Primary Surplus (% of GNP)



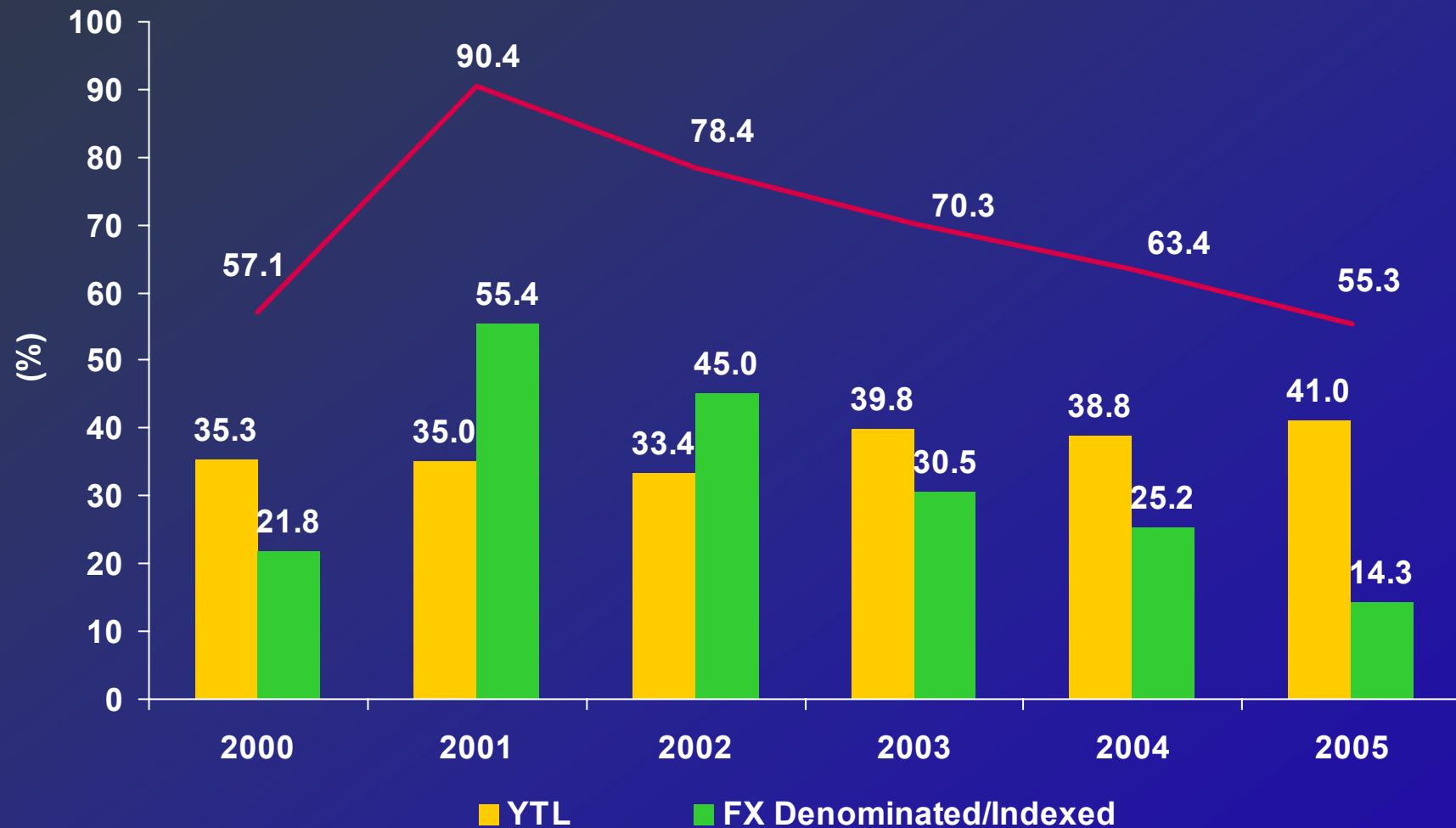
* Provisional
** Program

Public Sector Borrowing Requirement (% of GNP)



* Provisional
** Program

Public Sector Net Debt Stock (% of GNP)



Resilience to Shocks

Change in Net
debt Stock/GNP
Ratio (*)

10% Real Appreciation/Depreciation of YTL

+ / - 1.5 Points

3 Points Increase/Decrease in Real Interest of YTL Denominated Debt

+ / - 1.2 Points

2 Points Increase/Decrease in GNP Growth

+ / - 1.1 Points

1 Point Increase/Decrease in Primary Surplus

+ / - 1.0 Points

2006 Financing Program

<i>(Billion TRY)</i>	2006 (Annual Program)	Jan.-Aug. 2006 (Provisional Realizations)
I-TOTAL DEBT SERVICE	168.4	117.7
Domestic Debt Service	144.5	102.0
External Debt Service	23.8	15.7
II-FINANCING	168.4	117.7
Financing Other Than Borrowing	40.2	40.8
Primary Surplus	30.2	32.2
Privatization	7.0	8.5
Other	3.1	0.1
Use of Cash Account	0.0	-9.2
Total Borrowing	128.1	86.1
External Borrowing	16.7	10.1
Domestic Borrowing	111.4	76.0
TOTAL DOMESTIC ROLL-OVER RATIO	77.1%	74.6%

Turkey Has Established a Strong Track Record of Structural Reforms

Key Elements of Structural Reform Agenda:

- ◆ Public Sector Reform
- ◆ Financial Sector Reform
- ◆ Social Security Reform
- ◆ Tax Reform
- ◆ Enhancing Private Sector's Role in the Economy

Public Sector Reform

- ◆ Financial Management and Control Law
- ◆ Public Procurement Law
- ◆ Rationalizing Public Sector Employment
- ◆ Rationalizing Public Sector Budget & Investment
- ◆ Code of Ethical Conduct for Civil Servants
- ◆ Law on Freedom of Information for Citizens

Financial Sector Reform

Regulation and Supervision in line with EU Standards

- New Banking Law in line with EU Standards
- Continuation of Secondary Legislation related with the Banking Law
- Progress on Implementing Regulations
- Financial Sector Assessment Program (FSAP)

Strengthening the Private Banks

- CAR-Capital Adequacy Ratio- Improvement
- Consolidation Encouraged
- Increased Foreign Participation

State Bank Reform

- Financial and Operational Restructuring
- Privatization process for Halkbank has been initiated

Redefining and Strengthening the Institutional Framework for Deposit Insurance and Asset Management

Fiscal Reforms

Social Security Reform:

- ◆ Social Security Administrative Reform Law (enacted on May 20, 2006)
- ◆ Pension and Universal Health Insurance Reform Law (enacted on June 16, 2006)

Tax Reform:

- ◆ PIT Reform Law :
 - i. Rate Reform (enacted on April 8, 2006)
 - ii. Structure Reform (in progress)
- ◆ CIT Law (enacted on June 21, 2006)
- ◆ Establishment of a Semi Autonomous Revenue Administration (R. A.) (Done)
- ◆ Establishment of Large-Taxpayers Unit under R. A. (in progress)
- ◆ Establishment of Tax Policy Unit (Done)

Enhancing the Role of the Private Sector

Key Elements:

- ◆ Opening the Key Markets to Competition, and Regulation by Independent Agencies
- ◆ Improving the Investment Environment
- ◆ Accelerated Privatization

Enhancing the Role of the Private Sector

Deregulation of Key Markets

- ◆ Electricity Market Law
- ◆ Natural Gas Market Law
- ◆ Petroleum Law
- ◆ Telecommunication Law
- ◆ Tobacco Law
- ◆ Sugar Law

Structural Reforms

Enhancing Private Sector's Role:

Improving The Investment Environment

- ◆ A new FDI regime
 - No Approval Requirement
 - No Minimum Capital Requirement
 - National Treatment
 - Guarantee to Transfer Proceeds
 - Key Expatriate Personnel
 - Protection Against Expropriation
 - International Dispute Settlement
 - Access to Real Estate

Enhancing the Role of the Private Sector

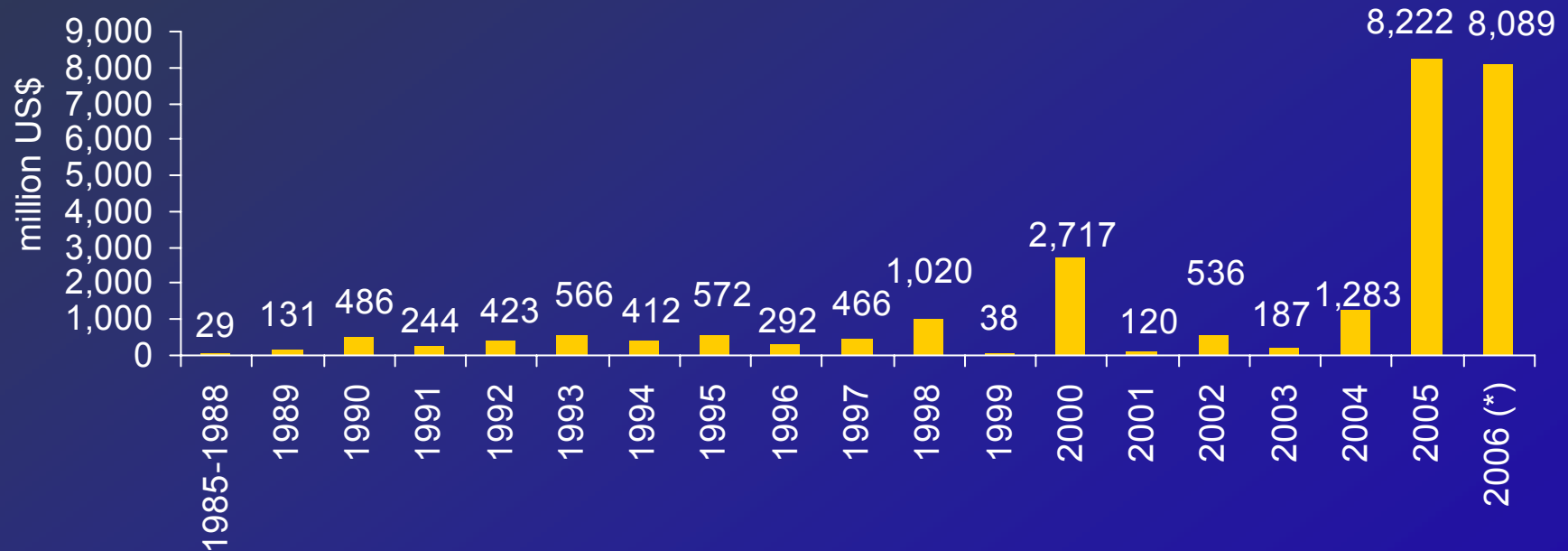
Improving The Investment Environment

- ◆ An Active Investment Promotion
 - A New Investment Promotion Agency
 - Investment Portal
<http://www.investinturkey.gov.tr>
 - A Dedicated Investor's Relations Office
<http://www.hazine.gov.tr/iro.htm>

Structural Reforms

- ◆ Enhancing Private Sector's Role:
- ◆ Accelerated Privatization Program

Privatization Implementations (January 1986 - July 2006)



* January-August Period, Provisional

World Bank's Program Loans

Recently Completed Program Loans

- ◆ Third Programmatic Financial and Public Sector Adjustment Loan (PFPSAL-III)
 - Amount: US\$ 1 billion
 - Supported Areas:

Financial Sector

- ◆ Strengthening the regulatory framework for banking sector
- ◆ Restructuring and preparing state banks for privatizing
- ◆ Improving the corporate insolvency regime

Public Sector

- ◆ Deepening of structural fiscal policies in support of sustainable fiscal adjustment
- ◆ Implementation of public expenditure management reforms
- ◆ Strengthening public sector governance

◆ First Programmatic Public Sector Development Policy Loan (PPDPL-I)

- Amount: US\$ 500 million
- Supported Areas:
 - Reforming social security and assistance system
 - Continuing with public expenditure reforms
 - Improving the administration and governance of the public sector

World Bank's Program Loans

Forthcoming Loans

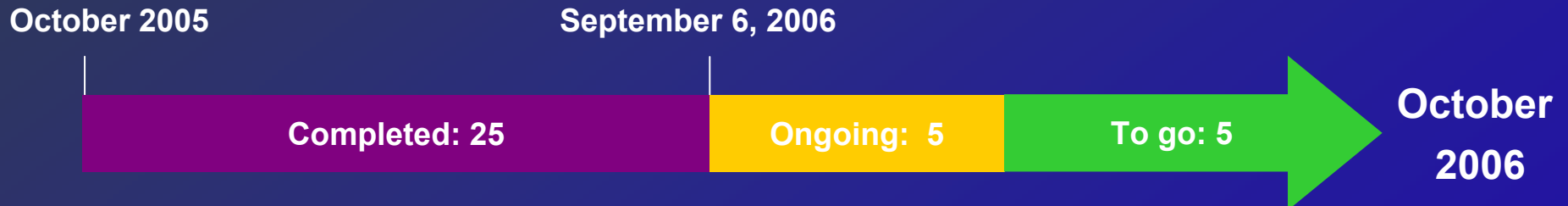
- ◆ Second Programmatic Public Sector Development Policy Loan (PPDPL-II)
 - Supported Areas: Follow-up of PPDPL –I
- ◆ Employment Generation Development Policy Loans (EGDPL)
 - Supported Areas:
 - Investment Climate -- Reducing Informality and Promoting More Investment to Create More and Better Jobs Continuing with public expenditure reforms
 - Labor Markets -- Reforming Labor Market Regulation and Improving Active Labor Market Policies
 - Credit and Capital Markets – Promoting Access to Investment Capital to Sustain Growth and Generate Employment
 - Innovation, Knowledge, Technology Adoption, Labor Force Skills – Making Labor More Productive and Attractive Factor of Production

Considerable Progress has Been Made in EU Accession Negotiations

Rapid Progress

- ◆ Turkey started accession negotiations on October 3, 2005

Chapters of the EU screening process



Negotiations on "Science and Research" chapter is closed

