

**REPUBLIC OF TURKEY
PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY**

REVENUE INDEXED BONDS

INVESTORS GUIDE

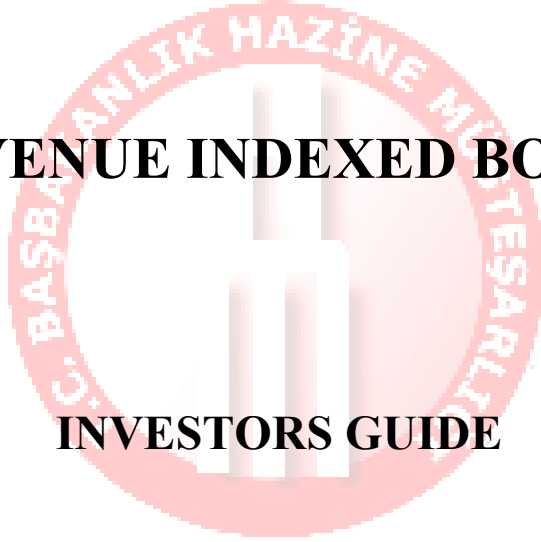


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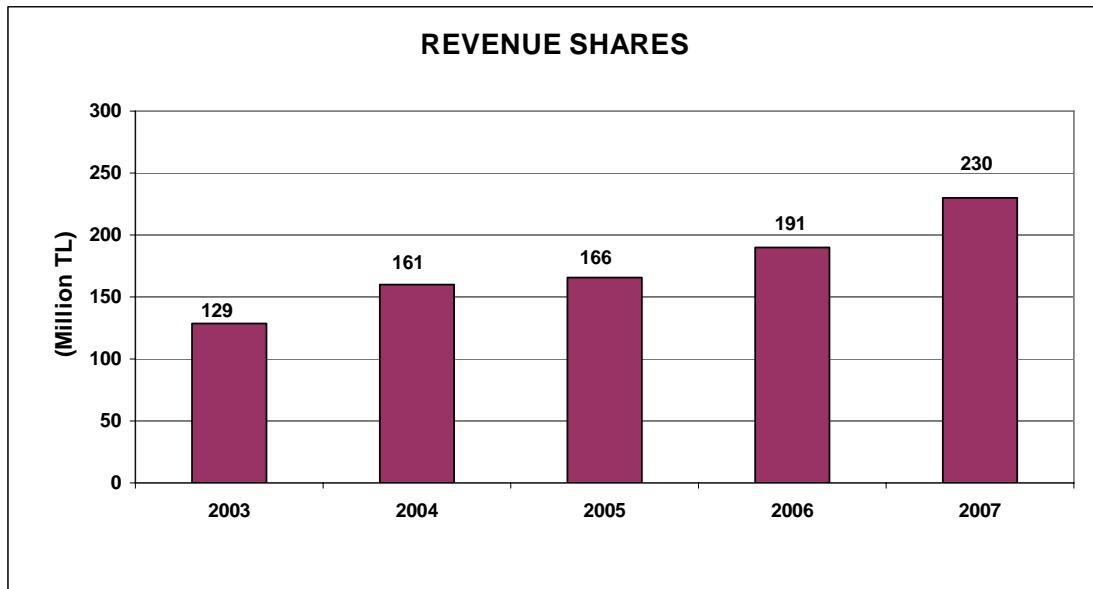


I. GENERAL ISSUES

With the aim of diversifying borrowing instruments, broadening the investor base and increasing domestic savings, the Undersecretariat of Treasury issues Revenue Indexed Bonds.

The coupon payments of Revenue Indexed Bonds will be indexed to the transfers of State Owned Enterprises, Turkish Petroleum Corporation (TPAO), State Supply Office (DMO), State Airport Authority (DHMI) and Coastal Safety (KIYEM), to Budget as “Revenue Shares”.

“Revenue Shares” for the last five years are shown below:



These securities guarantee a minimum return to the investors by eliminating uncertainty over fluctuations of the revenues during the life of the bond.

Issuance of Revenue Indexed Bonds will be performed on January 28, 2009 through Direct Sale Method. The Treasury will issue TL denominated and quarterly couponed and USD denominated semi annually couponed Revenue Indexed Bonds with maturity of three years.

II. ISSUANCE TECHNIQUE

Revenue Indexed Bonds will be issued through Direct Sale Method. In this respect, the banks that want to buy Revenue Indexed Bonds will have to submit their formal request on January 26, 2009 and January, 27, 2009 to the Treasury by fax and telephone confirmation.

III. SPECIAL FEATURES

Special features of the Revenue Indexed Bonds will be as follows:

- The income projections published in the 2009 Budget Law, for transefers from State owned enterprises (SOE) to the Budget as “Revenue Shares” for the years of 2009, 2010 and 2011 will be the basis for maximum coupon payments of Revenue Indexed Bonds.
- In this respect, the total amount of Revenue Indexed Bonds to be issued in TL and USD, given the above mentioned revenue projections, correspond to nominal 1.890 million TL.
- The USD denominated bonds will have a par value of **100 USD** and TL denominated bonds will have a par value of 100 TL.
- The TL denominated bonds have a 3 year maturity and quarterly coupon payments.
- The USD denominated bonds have a 3 year maturity and semi annual coupon payments
- The bonds will have a minimum return guarantee, and a maximum return limit.
- The Revenue Indexed Bonds will be subject to secondary bond market operations in İstanbul Stock Exchange – The Bonds and Bill Market.
- The bonds will be accepted as collateral in the Public Tenders and in the payments for Public property sales.

IV. Content of the “REVENUE SHARES”

The coupon payments of the Revenue Indexed Bonds will be indexed to the transefers from State owned enterprises (SOE) to the Budget as “Revenue Shares” by Turkish Petroleum Corporation (TPAO), State Supply Office (DMO), State Airport Authority (DHMI), Coastal Safety (KIYEM). In this respect, total transfers in three months and six months period to the Budget as Revenue Shares by TPAO, DMO, DHMI and KIYEM will be the base for the coupon payments.

In reference to the Law No. 5018 Article 78, up to 15 percent of gross sales of some specific SOEs is paid to the budget as “Revenue Shares”. The SOEs to pay Revenue Share and payment ratio are determined by Decree of Council of Ministers¹. In this respect, according to the Decree of Council of Ministers, 10 percent of gross sales of TPAO; 14 percent of gross sales of DHMI and up to 10 percent of gross sales of DMO is paid to the Budget in the next 20 days of the gross sales accrued in a given month. Also, 10 percent of the gross sales of KIYEM is paid at the end of next month of the gross sales accrued in a given month.

The main activities of those SOEs are provided below:

➤ **Turkish Petroleum Corporation (TPAO):**

Turkish Petroleum Corporation (TPAO) was founded in 1954 by Law No.6327 as the only national oil company of Turkey with the responsibility of being involved in hydrocarbon exploration, drilling, production, refinery and marketing activities on behalf of the state.

After the enactment of Decree Law No.233, TPAO, as a national oil company, has been involved only in upstream (exploration, drilling and production) sector and the other activities (refining, trading, transportation) have been removed from the company’s field of activity.

¹ Decree of Council of Ministers No.2005/9916 and No. 2006/11442

➤ **State Supply Office (DMO):**

According to the Law No. 233, the Office is a State Economic Enterprises with 7 regional centers, 4 communication units, serves as the main purchasing unit of the State.

The primary aim of the Office is to supply paper products, stationary goods, office machinery and tools, fixed assets and other equipment, transport vehicle to the institutions and establishments included in the general budget, municipalities, State owned enterprises, establishments subject to provisions of private law with more than 50 percent of their capital belonging to the State, funds, banks, non-governmental organizations that work on behalf of the public.

➤ **State Airport Authority (DHMI)**

Management of airports, provision and control of the air traffic service in Turkish Airspace is performed by the State Airport Authority (DHMI).

Developing infrastructure of Turkish Civil Aviation Sector by its facilities and installations, the organization has continued providing services since 1933. In 1984, it was reorganized as State Owned Enterprise (Public Economic Institutions at the moment) by the Decree Law No.233 and related Articles of Association.

Goals and activities of the Company determined by its Articles of Association are airport transportation, civil aviation activities, management of airports, supervision of the ground handling services, execution of the air traffic control services, establishment and operation of other installations and activities.

There has been a significant increase in the aircraft movement and passenger traffic in recent years within the frame of air navigation and airport management services provided by DHMI. Major Developments are realized in the international aircraft and passenger traffic of our international airports especially at Istanbul /Atatürk and Antalya airports, making them among the important airports of Europe as a consequence of the increase in the international traffic.

➤ **Coastal Safety (KIYEM):**

The General Directorate of Coastal Safety is responsible for assisting and improving safety of Navigation in Turkish Waters.

The company's core competences are search and rescue, salvage and towage, Turkish Straits Vessel Traffic Services (TSVTS), aid to navigation (lighthouses, Buoys), marine communication, marine oil spill response during salvage operations or in case of emergency.

V. COUPON PAYMENTS

The transfers from State owned enterprises (SOE) to Budget as "Revenue Shares" for the years of 2009, 2010 and 2011 will be the base for the maximum return to be paid by the coupons of the bond. These revenue projections provided in the 2009 Budget Law are 300,725 milyon TL, 312,911 milyon TL and 332,972 milyon TL, respectively. **If the so called revenues are realized above the expected maximum revenues stated above, these maximum revenue amounts will be used for calculation of payments.**

The coupon payments will be determined according to the three and six month revenue figures published in the Data Release Calendar given in Annex 1

The coupon payments to each investors will be calculated by dividing Revenue Shares by maximum number of bonds designated for TL and USD denominated Revenue Indexed Bonds.

VI. PRINCIPAL PAYMENT:

The principal will be paid to investors at maturity with the last coupon payment. In this respect the investor will receive principal + last coupon payment at maturity.

VII. MINIMUM RETURN GUARANTEE

A minimum return guarantee is provided to protect investors against fluctuations of revenues used for calculation of coupon payments.

The minimum guaranteed coupon payments for TL and USD denominated Bonds will be respectively 90 percent and 95 percent of the maximum revenue limit stated by the Turkish Treasury for each of the coupon periods.

VIII. THE MAXIMUM AND MINIMUM COUPON PAYMENTS

As stated above, to protect investors against revenue fluctuations there is a minimum coupon payment guarantee for each of coupon payments. Also, maximum coupon payments are limited according to the budgeted revenue projections declared above for the years of 2009, 2010 and 2011.

a) "TL" DENOMINATED REVENUE INDEXED BONDS:

As stated above, total amount of Revenue Indexed Bonds in TL and USD denominated issued will be nominal 1.890 million TL. If total amount of Bonds will be issued in TL denominated, the minimum and maximum amount of coupon payments will be as follows:

The coupon and principal payments of the Bond:

| Coupon Payment Dates | Maximum Coupon Payment | Minimum Coupon Payment |
|----------------------|------------------------|------------------------|
| 06.05.2009 | 3,98 | 3,58 |
| 05.08.2009 | 3,98 | 3,58 |
| 04.11.2009 | 3,98 | 3,58 |
| 03.02.2010 | 3,98 | 3,58 |
| 05.05.2010 | 4,14 | 3,73 |
| 04.08.2010 | 4,14 | 3,73 |
| 03.11.2010 | 4,14 | 3,73 |
| 02.02.2011 | 4,14 | 3,73 |
| 04.05.2011 | 4,40 | 3,96 |
| 03.08.2011 | 4,40 | 3,96 |
| 02.11.2011 | 4,40 | 3,96 |
| 01.02.2012 | 104,40 | 103,96 |
| Term Yield | 4,118% | 3,709% |
| Annual Yield | 16,47% | 14,84% |
| Compiund Yield | 17,52% | 15,68% |

(*) At most two digits will be used during the calculation of Coupon Payments

(*) Minimum Coupon Payment is calculated by dividing Revenue Shares forecasts by the total number of bonds

As stated above, if total amount of Bonds will be issued in TL denominated, for nominal 1.890 million TL, coupon payments, calculated as a proportion of total number of securities issued will be;

- the minimum guaranteed amount, if the realized “Revenue Shares” are below the minimum guarantee limit determined for each coupon payment.
- the maximum coupon amount, if the realized “Revenue Shares” are above the maximum guarantee limit determined for each coupon payment.
- Between the minimum and maximum coupon amounts, if the realized “Revenue Shares” are between the limits determined for each coupon payments.
- At maturity the principal and the last coupon will be paid.

In this respect, the minimum return of the TL denominated Revenue Indexed Bonds will be 15,68 percent and the maximum return will be 17,52 percent.

An example of the first coupon payment according to different realizations of “Revenue Shares” is given below:

Example:

According to different realizations of “Revenue Shares”, for nominal 1.890 million TL Revenue Indexed Bonds with par value of 100 TL, the first coupon payment will be as follows:

- a) If “Revenue Shares” is 70 million TL, an investor who has 30.000 Revenue Indexed Bonds with par value of 100 TL, will receive a coupon payment according to the formula provided below:

| | | | | |
|---|---|--|---|--|
| The Coupon Payment to Investors | = | $\frac{\text{Revenue Shares}}{18.900.000}$ | * | Total Number of Bonds Held By Investor |
| <p>The ratio determines whether the coupon payment for 100 TL is between the minimum and maximum limit.</p> | | | | |

The First Step: To determine whether the coupon payment for 100 TL is between the minimum and maximum coupon limits, Revenue Shares will be divided by maximum number of TL denominated Bonds .

The Second Step: Calculated coupon payment for 100 TL in the first step will be multiplied by total number of bonds held by investor.

In the first step, it is calculated that coupon payment for 100 TL nominal bond (3,70 TL) will be between the minimum (3,58 TL) and the maximum (3,98 TL) limits so that the investor will receive 111.111 TL in the first coupon payment.

$$\text{The Coupon Payment to Investor} = \left[\frac{70.000.000}{18.900.000} \right] * 30.000 = 111.000 \text{ TL}$$

3,58 TL < 3,70 TL < 3,98 TL

- b) If calculated coupon payment for 100 TL nominal bond is below the minimum (3,58 TL) coupon limit, the minimum guaranteed payment for the first coupon will be paid as 3,58 TL instead of 3,70 TL in line with the formula given above.
- c) If calculated coupon payment for 100 TL nominal bond is above the maximum (3,98 TL) coupon limit for the first coupon, 3,98 TL will be paid, instead of 3,70 TL, in line with the formula given above.
- d) In this respect, each coupon payment will be calculated according to the example given above.

b) USD DENOMINATED REVENUE INDEXED BONDS

According to revenue projections given for the years 2009, 2010 and 2011 in the 2009 Budget Law, the minimum and maximum coupon payments for nominal 100 USD Revenue Indexed Bonds will be as follows:

| Coupon Payment Dates | Maximum Coupon Payment | Minimum Coupon Payment |
|----------------------|------------------------|------------------------|
| 05.08.2009 | 3,20 | 3,04 |
| 03.02.2010 | 3,08 | 2,93 |
| 04.08.2010 | 3,21 | 3,05 |
| 02.02.2011 | 3,12 | 2,97 |
| 03.08.2011 | 3,35 | 3,19 |
| 01.02.2012 | 103,27 | 103,10 |
| Term Yield | 3,180% | 3,023% |
| Annual Yield | 6,36% | 6,05% |
| Compiund Yield | 6,46% | 6,14% |

(*) At most two digits will be used during the calculation of Coupon Payments

(*) Minimum Coupon Payment is calculated by dividing Revenue Shares forecasts by the total number of bonds

The indicative exchange rates (FX selling) for USD announced by the Central Bank of Turkey at the coupon date of the Revenue Indexed Bonds, will be used in the calculation of “Revenue Shares” in USD terms.

Coupon payments will be;

- the minimum guaranteed amount, if the “Revenue Shares” realization is below the minimum guarantee limit determined for each coupon payments.
- the maximum coupon amount, if the “Revenue Shares” realization is above the maximum guarantee limit determined for each coupon payments.
- Between the minimum and maximum coupon amounts, if the “Revenue Shares” realization is between the limits determined for each coupon payment.
- At maturity the principal and the last coupon will be paid

In this respect, the minimum return of the USD denominated Revenue Indexed Bonds will be 6,14 percent and the maximum return will be 6,46 percent

Example:

As stated above, total TL denominated and USD denominated Revenue Indexed Bonds which will be issued on January 28, 2009 will be 1,890 million TL.

On the other hand, ie: if all “Revenue Shares” are used for issuance of USD Denominated Revenue Indexed Bonds, then total of nominal issuance will be 3.000 million USD.

- a) If “Revenue Shares” for six months is 150 million TL in the first coupon payment and, the FX rate is 1,60 TL, the investor who has 40.000 Revenue Indexed Bond with par value of 100 USD will receive a coupon payment according to the formula provided below:

| | | | |
|--|--|---|--|
| The Coupon Payment to Investors = | $\frac{\text{Revenue Shares}}{30.000.000}$ | * | Total Number of Bonds Held By Investor |
| <p>The ratio determines whether the coupon payment for 100 USD is between the minimum and maximum limit.</p> | | | |

The First Step: “Revenue Shares” (150 million TL) will be converted to USD by using the FX rate (1,60 TL) so that Revenue Shares is calculated in USD terms (93.750.000 USD)

The Second Step: To determine whether the coupon payment for 100 USD is between the minimum and maximum coupon limits, Revenue Shares (93.750.000 USD) will be divided by maximum number of USD denominated Bonds.

| | | | | |
|---|---------------------------------|---|--------|---------------|
| The Coupon Payment to Investor = | $\frac{93.750.000}{30.000.000}$ | * | 40.000 | = 125.200 USD |
| <p>3,04 USD < 3,13 USD < 3,20 USD</p> | | | | |

The Third Step: In step two, it is calculated that the coupon payment for 100 USD is between the maximum and minimum limits so that 3,13 USD can be used to determine the coupon payment to investor by multiplying with 40.000.

- b) If calculated coupon payment in the second step for 100 USD is above the maximum coupon limit or below the minimum coupon limit, then related maximum and minimum coupon limit must be used in the formula.

IX. OTHER IMPORTANT ISSUES:

- If demand exceeds total preannounced amount to be issued; total issue amount will be distributed proportionately.
- If official status of SOEs, which transfer Revenue Shares to the Budget change, investors will receive the minimum guaranteed return.
- If the rate of Revenue Shares to be transferred to the budget unfavorably changes, the minimum guaranteed return will be paid to the investors.
- Similarly, if the rate of Revenue Shares to be transferred to the budget changes favorably, investors will receive the maximum coupon payments determined at the issue date.
- The taxation of Revenue Indexed Bonds will be subject to the prevailing tax regime for Government Bonds, in accordance with Temporary Article 67, which was added to the Income Tax Law through Article 30 of the law number 5281.
- Similar to other Government Bonds, the price of Revenue Indexed Bonds will be published daily in the Official Gazette.
- Also daily reference prices, which will be calculated according to maximum and minimum coupon payments, will be announced on the Treasury web page www.hazine.gov.tr and on related paper of Reuters.
- Publication dates of the data related to “Revenue Shares” are provided in the annex.

DATA RELEASE CALENDER

| "NON TAX REVENUES FROM SOEs" |
|---------------------------------|
| 30 April 2009 |
| 31 July 2009 |
| 30 October 2009 |
| 01 February 2010 |
| 30 April 2010 |
| 02 August 2010 |
| 01 November 2010 |
| 31 January 2011 |
| 02 May 2011 |
| 01 August 2011 |
| 31 October 2011 |
| 31 January 2012 |

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