

23 March 2012

AN OVERVIEW OF BAŞKENT DOĞALGAZ PRIVATIZATION

1. Introduction

Başkent Doğalgaz Dağıtım A.Ş. (“Başkent Doğalgaz” or the “Company”) was established on 10 August 2007 as a joint stock company as part of Turkey’s privatization program pursuant to Law No. 5669 Amending the Natural Gas Market Law¹ (“Law No.5669”).

The first attempt for the privatization of the Company was made by the Ankara Metropolitan Municipality in 2008; which was ultimately cancelled due to the failure of the successful two bidders to pay the bid price. In July 2009, with the decision of the High Privatization Board (the “HPB”), 80% of the shares Başkent Doğalgaz were tendered out by the Privatization Administration (the “PA”). The tender took place on 16 August 2010. MMEKA Makine İthalat Paz. ve Tic. A.Ş. won the tender with the highest bid of US\$ 1.2 billion. However, it could not comply with its payment undertakings either and the tender was cancelled once again on 9 May 2011 after all time extensions elapsed.

The PA has re-launched a tender in the second half of 2011 (the “Tender”) and determined the bidding deadline as 31 October 2011 at the first place. However, upon the requests of the potential bidders, the deadline has been extended to 27 January 2012 first and then to 16 April 2012.

Meanwhile, upon the failure of the successful bidders in the tender announced by the Ankara Metropolitan Municipality for 20% of the shares of Başkent Doğalgaz, the tender in question was also cancelled and re-announced. The deadline to submit bids in this tender is 17 May 2012.

2. General Information on the Tender

The table below which has been published in the tender announcement of the PA sets brief information on the subject:

Company Whose Shares Are Being Offered	Capital of the Company (Turkish Lira)	Percentage of Shares Being Offered (%)	Number of Shares Being Offered	Amount of Bid Bond (US Dollars)	Bidding Deadline
Başkent Doğalgaz Dağıtım A.Ş.	700.000.000	80	560.000	30.000.000	16/04/2012

According to the tender announcement published on the website of the PA, the Tender shall be conducted by holding negotiations through the “negotiation method” following the receipt

¹ Published in the Official Gazette No. 26550, dated 12 June 2007.

of the bids in sealed envelopes. If deemed necessary by the Tender Commission, the tender may be concluded through an auction with the participation of the bidders involved in the negotiations.

Participants upon their application, may be given the opportunity to access the data site that will be made available in electronic environment from the date to be designated by the PA, to visit the data room that will contain the information and documents that could not be uploaded to the data site, to hold meetings with the Company representatives, to attend management presentations and to make site visits in order to perform due diligence of the current status of the Company including also the information contained in the Information Memorandum, prior to bidding. In order to participate in this due diligence process, participants are required to deposit US\$ 15,000.00 to any of the bank account numbers specified in the tender announcement, in cash.

According to the declarations of the PA, there are some alterations in the Tender announced for the third time. For instance, this time an option has been set forth for the investors to pay 50% of the tender price in advance and the remaining 50%, 2 years after the privatization.

Large investor groups of the sector such as Koç, Sabancı, Akfen and Aksa are among the companies interested in the Tender.

Final bargaining talks are expected to take place latest in the beginning of May, if no further postponement occurs.

3. Key Issues for Consideration by Potential Investors and Lenders

Başkent Doğalgaz obtained its distribution license on 31 August 2007 for a term of 30 years under the Natural Gas Market Law, No.4646² and the Natural Gas Market Licensing Regulation³.

Distribution is defined as the transmission of natural gas by local gas pipelines and the retail-sale of natural gas for delivery to customers. Distribution license grants the Company the authority to conduct gas distribution activities within the borders of the Municipality. Başkent Doğalgaz is the only distribution company in Ankara distribution region.

Company was established to engage solely in distribution of the natural gas under the Natural Gas Market Law. For this purpose, the Company can;

- (i) establish all kind of facilities for distribution of natural gas, or lease and purchase any kind of facility; and
- (ii) purchase and sell the natural gas, establish new subscribers within the distribution network.

The founders of Başkent Doğalgaz are (i) Ankara Metropolitan Municipality, (ii) EGO Ankara Electricity and Coal Gas Association, (iii) Ankara Kömür ve Asfalt İşletmeleri San. Tic. A.Ş., (iv) Ankara Soğukhava Depo İşletmeciliği Gıda Sanayi Ticaret A.Ş. and (v) Ankara Büyükşehir Belediyesi Proje Organizasyon İşlemleri İnşaat Taahhüt Müşavirlik

² Published in the Official Gazette No. 24390, dated 2 May 2001.

³ Published in the Official Gazette No. 24869, dated 7 September 2002.

Ticaret A.Ş.

As of today, the authorized capital of Başkent Doğalgaz is TL 700,000,000.00 divided into 700,000 shares each bearing a nominal value of TL 1,000.

Except for the approvals of the Energy Market Regulatory Authority (“EMRA”) and the Turkish Competition Authority no approval or permit is required for the sale of the Company’s shares.

Set forth below are some preliminary remarks in relation to Başkent Doğalgaz:

Inclusion of Baymina Enerji A.Ş. (“Baymina”) in the Portfolio of Başkent Doğalgaz: Pursuant to EMRA Decision No. 419 dated 11 January 2005, BOTAŞ cannot connect customers, which are located within the authorized area of a distribution company, to the transmission network. However, Baymina, which is a natural gas based power plant operator within the boundaries of Başkent Doğalgaz, was excluded by BOTAŞ from the list of customers to be transferred to Başkent Doğalgaz. Başkent Doğalgaz filed a cancellation lawsuit against such BOTAŞ Decision, and ultimately the court rendered a decision in favor of Başkent Doğalgaz, stating that Baymina must be connected to Başkent Doğalgaz rather than BOTAŞ. As a result of such court decision and the Decision of the High Planning Court dated 19 July 2010, Baymina and 25 other eligible consumers (such as Başkent University, Türk Traktör, Meteksan, Ankara Şeker Fabrikası, Ankara Organized Industrial Zone and some other industrial customers) were transferred to the subscribers portfolio and distribution volume of Başkent Doğalgaz as of 1 February 2011. This transfer had positive financial impacts on Başkent Doğalgaz, as the distribution volume of Başkent Doğalgaz has been increased by 1.3 billion cubic meters. However, since Baymina is a build-operate model project under Build-Operate Law No. 3996⁴, and has specific project documents signed with TETAŞ and BOTAŞ, the legality of the transfer of Baymina from BOTAŞ to Başkent Doğalgaz will have to be carefully reviewed and analyzed.

Debts of Başkent Doğalgaz: Based on certain news reports, we understand that a debt protocol has been signed with BOTAŞ for Başkent Doğalgaz’s debts in an amount of TL 677 million. We also understand that another debt protocol has been signed with the Treasury for Başkent Doğalgaz’s debts amounting to TL 467 million. In addition, we are aware of a Protocol between the Ankara Municipality, EGO and Başkent Doğalgaz. The legal implications of all such protocols need to be analyzed.

Fixed Tariffs: Pursuant to Law No. 5669, the profit margin determined by EMRA within the framework of the privatization of Başkent Doğalgaz shall be applied as TL equivalent of US\$ 0.05555/m³ as a unit service and depreciation fee; and TL equivalent of US\$ 0.0077/m³ as a transportation tariff for eligible consumers for a period of 10 years. The tariffs shall be determined by EMRA for the years subsequent to the end of the first 10-year period in accordance with the Natural Gas Market Tariffs Regulation. In addition, pursuant to an EMRA Regulation dated 16 December 2010, the transportation fee threshold shall be kept as 800.000 cubic meters until 31 August 2017. The regulatory risk for a change in such fixed tariffs needs to be analyzed.

⁴ Published in the Official Gazette No. 21959, dated 13 June 1994.

Extended Service Area of Başkent Doğalgaz: Based on certain news reports, upon the EMRA's approval on the inclusion of Kızılcahamam in the service area of Başkent Doğalgaz, certain other counties such as Şereflikoçhisar and Beypazarı are planned to be included in the service area of Başkent Doğalgaz. The legal requirements for the applicability of such extensions need to be analyzed.

Also, it is publicly known that EMRA is preparing an information document introducing the regions through which the scope of Başkent Doğalgaz may be expanded and the amount of investment required for the related regions for the participants. The PA is expected to share this information with the companies purchasing tender specifications.

Supply Diversification Requirement: Pursuant to Article 28 of the Natural Gas Market Licensing Regulation, a distribution company may purchase a maximum 50% of the natural gas it will distribute, within a calendar year, from the same legal entity unless otherwise decided by EMRA. Implementation of this provision may not be possible in practice due to the dominant position of BOTAŞ. We understand that the implementation of that requirement has not been postponed; however, EMRA has not imposed any fine to any distribution company due to breach of such requirement so far. The possible implications of, and the risks associated with, such requirement need to be analyzed.

Environmental Permits: The operation of Başkent Doğalgaz is subject to extensive permitting requirements under the environmental legislation. Failure to comply with such requirements may cause temporary or permanent suspension of operations and/or an administrative penalty may be imposed on the operator.