

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7221 TU

Loan Agreement

(Renewable Energy Project)

between

REPUBLIC OF TURKEY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 5, 2004

Public Disclosure Authorized



LOAN NUMBER 7221TU

LOAN AGREEMENT

AGREEMENT, dated May 5, 2004, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

(B) Part A of the Project will be carried out by Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to TSKB a part of the proceeds of the loan as set forth in this Agreement;

(C) Part B of the Project will be carried out by Türkiye Kalkınma Bankası A.Ş. (TKB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to TKB a part of the proceeds of the loan as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the agreements of even date herewith between the Bank and TSKB and TKB, respectively (the Project Agreements);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Beneficiary Enterprise" means an enterprise satisfying the appropriate criteria set forth in paragraph 7 of Annex to Schedule 2 to the Project Agreements to which TSKB or TKB proposes to make or has made a Sub-loan or a Financing Lease;

(b) “Disbursed Amount” means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;

(c) “Environmental Impact Assessment Regulation” means the regulation published in the Official Gazette No. 24777 dated June 6, 2002;

(d) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 of the TSKB Project Agreement and TKB Project Agreement;

(e) “Financing Lease” means any transfer of possession of goods by TSKB or TKB to a Beneficiary Enterprise on the basis of a lease agreement for the temporary use of the goods by the Beneficiary Enterprise for the carrying out of a Sub-project;

(f) “Law No. 4749” means the Public Finance and Debt Management Law of the Borrower dated March 28, 2002;

(g) “Licensing Regulation” means the regulation published in the Official Gazette No. 24836 dated August 4, 2002, as amended to the date of this Agreement;

(h) “MENR” means the Ministry of Energy and Natural Resources of the Borrower;

(i) “Maturity Fixing Date” means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;

(j) “Operational Manual” means the manual to be adopted by TSKB and TKB pursuant to Section 6.01 (b) of this Agreement, setting out the operational and administrative procedures for the implementation of the Project, in respect of the preparation, approval, processing, financing, implementation, monitoring and supervision of Sub-projects;

(k) “Project Agreement” means either the TSKB Project Agreement or the TKB Project Agreement, as the case may be, and the term “Project Agreements” means said project agreements collectively;

(l) “Special Accounts” means the TSKB Special Account and the TKB Special Account collectively;

(m) “Subsidiary Loan Agreement” means either the TSKB Subsidiary Loan Agreement or the TKB Subsidiary Loan Agreement, as the case may be, and the term “Subsidiary Loan Agreements” means said subsidiary loan agreements collectively, and

“Subsidiary Loan” means a loan to be made out of the proceeds of the Loan provided to TSKB and TKB under a Subsidiary Loan Agreement;

(n) “Sub-loan” means a loan made or proposed to be made by TSKB or TKB, out of the proceeds of the Loan allocated from time to time to Categories (1) (a) and (1) (b) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, for purposes of financing all or a portion of the expenditures incurred by a Beneficiary Enterprise for goods, works and services under a Sub-project;

(o) “Sub-project” means a specific project, selected in accordance with paragraph 8 of the Annex to Schedule 2 to the Project Agreements, which is proposed to be carried out by a Beneficiary Enterprise through the utilization of the proceeds of a Sub-loan or a Financing Lease;

(p) “TKB Project Agreement” means the agreement between the Bank and TKB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the TKB Project Agreement;

(q) “TKB Special Account” means the account referred to in Section 2.02 (b) of this Agreement and Section 2.02 of the TKB Project Agreement;

(r) “TKB Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and TKB pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the TKB Subsidiary Loan Agreement;

(s) “TSKB Project Agreement” means the agreement between the Bank and TSKB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the TSKB Project Agreement;

(t) “TSKB Special Account” means the account referred to in Section 2.02 (b) of this Agreement and Section 2.02 of the TSKB Project Agreement; and

(u) “TSKB Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and TSKB pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the TSKB Subsidiary Loan Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to TSKB or TKB.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to two hundred two million and thirty thousand Dollars (\$202,030,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) amounts paid (or, if the Bank shall so agree, to be paid) by TSKB or TKB on account of withdrawals made by a Beneficiary Enterprise under a Sub-loan or a Financing Lease to meet the reasonable cost of goods, works and consultants' services required for the Sub-project under the Project in respect of which the withdrawal from the Loan Account is required; and
- (ii) the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower shall, for the purposes of Part A and Part B of the Project, cause TSKB and TKB to open and maintain in TSKB and TKB, respectively (TSKB Special Account and TKB Special Account), all in Dollars, special deposit accounts on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 3 to the Project Agreements.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of

the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each March 15th and September 15th, the first such installment to be payable on the ninth (9th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-sixteenth (1/16th) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after March 15, 2022 the Borrower shall also pay on such date the aggregate amount of all such installments.

(c) The Bank shall notify the Borrower of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for said Disbursed Amount.

(d) Notwithstanding the provisions of paragraphs (a) through (c) of this Section, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause TSKB and TKB to perform in accordance with the provisions of the Project Agreements all the obligations of TSKB and TKB therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TSKB and TKB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of Part A and Part B of the Project, the Borrower shall enter into a subsidiary loan agreement with each TSKB (the TSKB Subsidiary Loan Agreement) and TKB (the TKB Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Bank. Except as the Bank shall otherwise agree, such terms and conditions shall include the following:

- (i) the Borrower shall relend to each TSKB and TKB, an amount in Dollars equal to the amount of the Loan allocated from time to time to Category (1) (a) in case of TSKB, and to Category (1) (b) in case of TKB, set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the Borrower shall charge, each TSKB and TKB, semi-annually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal to the rate payable under Section 2.06 of this Agreement;
- (iii) the Borrower shall charge, each TSKB and TKB, an additional fee pursuant to Law No. 4749;
- (iv) the Borrower shall charge, each TSKB and TKB, a commitment charge at a rate equal to the rate payable under Section 2.05 of this Agreement, on the principal amount of the Subsidiary Loans not withdrawn from time to time;
- (v) each TSKB and TKB shall pay to the Borrower a front-end fee in an amount equal to one percent (1%) of the amount of its respective Subsidiary Loan; and
- (vi) each TSKB and TKB shall repay its respective Subsidiary Loan in accordance with the provision set forth in Section 2.08 of this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreements.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall cause TSKB and TKB to:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by TSKB and TKB, respectively, pursuant to Section 2.04 of the Project Agreements.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section including and those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) TSKB or TKB shall have failed to perform any of its obligations under its respective Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that TSKB or TKB will be able to perform its obligations under its respective Project Agreement.

(c) Licensing Regulation or Environmental Impact Assessment Regulation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of TSKB or TKB to perform any of its obligations under its respective Project Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

(b) The event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreements have been executed on behalf of the Borrower and TSKB and TKB; and

(b) the Operational Manual, satisfactory to the Bank, has been adopted by TSKB and TKB.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreements have been duly authorized or ratified by TSKB and TKB, and are legally binding upon TSKB and TKB in accordance with their terms; and

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower and TSKB and TKB and are legally binding upon the Borrower and TSKB and TKB in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Undersecretary of Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Bařbakanlık
Hazine Müsteřarlık
Eřönü Bulvarı
Emek-Ankara
Republic of Turkey

Cable address:	Telex:	Facsimile:
HAZINE	44 232HZM-TR 44 404HZM-TR	(312) 212-8550

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Ankara, Republic of Turkey, as of the day and year first above written.

REPUBLIC OF TURKEY

By /s/ İbrahim Çanakçı

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
Turkey Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works and consultants' services financed under Sub-loans and goods financed under Financing Leases:		100% of amounts disbursed
(a) under Part A of the Project	150,000,000	
(b) under Part B of the Project	50,000,000	
(2) Front-end fee	2,020,300	Amount due under Section 2.04 of this Agreement
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(4) Unallocated	<u>9,700</u>	
TOTAL	<u>202,030,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$15,000,000, may be made in respect of Category (1) (a) and in an aggregate amount not exceeding

\$5,000,000, may be made in respect of Category (1) (b) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after June 30, 2003; and (b) a Sub-loan or a Financing Lease not made in accordance with the provisions of the Annex to Schedule 2 to the Project Agreements and terms and conditions set forth in the Operational Manual.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for goods costing less than \$5,000,000 equivalent each; (b) contracts for works costing less than \$8,000,000 equivalent each; (c) contracts for employment of consulting firms costing less than \$1,000,000 equivalent each; and (d) contracts for individual consultants costing less than \$50,000 equivalent each, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to expand privately owned and operated distributed power generation from renewable sources within the market-based legal framework.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Financing of Generation From Renewable Energy (Special Purpose Debt Facility)

Part A: The establishment and operation of a credit facility for the financing, through the provision of Sub-loans or Financing Leases by TSKB to Beneficiary Enterprises, enabling such Beneficiary Enterprises to finance the costs related to the carrying out of Sub-projects for the generation of electricity from renewable energy resources.

Part B: The establishment and operation of a credit facility for the financing, through the provision of Sub-loans or Financing Leases by TKB to Beneficiary Enterprises, enabling such Beneficiary Enterprises to finance the costs related to the carrying out of Sub-projects for the generation of electricity from renewable energy resources.

* * *

The Project is expected to be completed by December 31, 2009.