

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4858 TU

Loan Agreement

(Electricity Distribution Rehabilitation Project)

between

TURKIYE ELEKTRIK DAGITIM A.S.

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 11, 2008

Public Disclosure Authorized

LOAN NUMBER 4858 TU

LOAN AGREEMENT

Agreement dated February 11, 2008, between TURKIYE ELEKTRIK DAGITIM A.S. (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of two hundred five million Euro (€205,000,000) (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread. Notwithstanding the foregoing, if any amount of the withdrawn Loan Balance remains unpaid when due, and such non payment continues for a period of thirty (30) days, then the interest paid by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower, the Guarantor and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - TERMINATION

- 4.01. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is the General Manager of the Borrower.
- 5.02. The Borrower's Address is:

Turkiye Elektrik Dagitim A.S.
Genel Mudurlugu
Inonu Bulvari No. 27
Bahcelievler
nkara, Turkey

Facsimile:

(312) 223-1703

- 5.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD

248423(MCI) or

1-202-477-6391

Washington, D.C. 64145(MCI)

AGREED at Ankara, Turkey, as of the day and year first above written.

TURKIYE ELEKTRIK DAGITIM A.S.

By /s/ Hasim Keklik

Authorized Representative

By /s/ Elmas Yasar Bostanci

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ulrich Zachau

Director
Turkey Country Unit
Europe and Central Asia

SCHEDULE 1

Project Description

The objective of the Project is to help improve the reliability of power supply to consumers in the Republic of Turkey by supporting the implementation of the electricity distribution network rehabilitation and expansion program.

The Project consists of the following parts:

I. Distribution Network Rehabilitation and Expansion

Support distribution network rehabilitation and expansion through financing of (i) medium and low voltage line replacements and extensions, (ii) substation upgrades, (iii) upgrading of lines from non-standard medium voltages and (iv) their conversion to underground cables.

II. Technical Assistance for Supervision Consultants

Support the Borrower and its regional companies in managing and supervising the implementation of the Project investments through financing supervision consultants.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. The Borrower shall, through the PMT, oversee the overall implementation of the Project, and take necessary actions to cause the distribution companies to implement the Project after their privatization. To that end, the Borrower shall maintain the PMT throughout the implementation of the Project, under terms of reference acceptable to the Bank and with sufficient and suitable human, financial and technical resources.
2. The Borrower shall enter into contractual relations, acceptable to the Bank, with the regional distribution companies, to ensure: (a) the annual debt service obligations of the Borrower, through an escrow account to be established in a manner satisfactory to the Borrower and the Guarantor, until the debt service payments are fully recovered by the Borrower; and (b) the satisfactory implementation of the investments supported under the Project.
3. The Borrower shall implement the EMP and shall include in the quarterly progress reports to the Bank specific environmental reports, as required, providing results of any monitoring programs undertaken as part of the EMP.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester and shall be furnished to the Bank not later than forty five days after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months before the Closing Date.

B. Financial Management, Financial Reports and Audits.

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. The Borrower shall prepare and furnish to the Bank as part of the Project Report not later than forty five days after the end of each calendar semester, interim un-audited

financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods (Including Supply and Installation).** All goods required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Method of Procurement of Goods

International Competitive Bidding. Goods shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Least Cost Selection
(b) Selection based on Consultants' Qualifications
(c) Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions included in the Disbursement Letter, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(1) Goods (including supply and installation)	200,000,000	100% of foreign expenditures, 100% local expenditures (ex-factory cost) and 85% of other items procured locally
(2) Consultants' services	4,487,500	100%

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(3) Front-End Fee	512,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>205,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed 11,000,000 may be made for payments made prior to this date but on or after February 28, 2007 for Eligible Expenditures under Category (1) and Category (2).

2. The Closing Date is December 31, 2012.

Section V. Other Undertakings

1. (a) The Borrower shall maintain its collection efficiency at not less than 93% for each of its fiscal years after its fiscal year ending on December 31, 2007, at not less than 95% for each of its fiscal years after its fiscal year ending on December 31, 2010, and at not less than 98% for each of its fiscal years after its fiscal year ending on December 31, 2015 and thereafter.

(b) For the purposes of this Section:

(i) The term "collection efficiency" shall mean the ratio, expressed as a percentage, between:

(A) total cash collected from consumers as payment for the sale of electricity during the fiscal year under consideration; and

(B) total revenue billed to consumers for the sale of electricity during such fiscal year.

2. (a) Except as the Bank shall otherwise agree, the Borrower shall produce, for each of its fiscal years after its fiscal year ending on December 31, 2007, funds from internal sources equivalent to not less than 25% of the annual average of the Borrower's capital expenditures incurred, or expected to be incurred, for that year and the next following three fiscal years.

(b) Before the beginning of each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating

income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) The term "net non-operating income" means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

SCHEDULE 3**Amortization Schedule**

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Euro[*])</u>
On each January 15 and July 15	
beginning January 15, 2013	10,250,000
through July 15, 2022	10,250,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 3.10 of the General Conditions.

APPENDIX**Section I. Definitions**

1. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “Disbursement letter” means the letter dated as of the same date of this Agreement, including the additional instructions as referred to in Section IV.A.1 of Schedule 2 to this Agreement, as may be revised from time to time.
4. “EMP” means the Environmental Management Plan, dated June 19, 2006 and approved by the Bank describing the environmental issues, mitigation, monitoring and institutional measures for the Project.
5. “Fiscal year” means the fiscal year of the Borrower starting on January 1 and ending on December 31 of each year.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 with modifications set forth below in Section II of this Appendix.
7. “PMT” means the Project Management Team established within the Borrower.
8. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
9. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 27, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
10. “Turkiye Elektrik Dagitim AS” means a joint stock company established and operating pursuant to the Council of Ministers’ Decree No. 93/4789 dated August 12, 1993.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.01 shall read as follows:

“Section 3.01. *Front-end Fee*. The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).”

2. A new paragraph (d) is included in Section 3.02 *Interest* which shall read as follows:

“(d) Notwithstanding the provisions of paragraph (a) of this Section, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the Borrower shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified in the Loan Agreement (or such other interest rate as may be applicable pursuant to Article IV as a result of a Conversion) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.”

3. Appendix “Definitions” is amended as follows:

(a) Paragraph 19 “Commitment Charge” is deleted, and subsequent paragraphs are re-numbered accordingly.

(b) New paragraphs 27, 28, 29 and 30 are added to the Appendix:

“27. “Default Interest Period” means for any overdue amount of the Withdrawn Loan Balance, each Interest Period during which such overdue amount remains unpaid; provided, however, that the first such Default Interest Period shall commence on the 31st day following the date on which such amount becomes overdue, and the final such Default Interest Period shall end on the date at which such amount is fully paid.”

28. “Default Interest Rate” means for any Default Interest Period:

- (a) in the case of a Variable Spread Loan: Default LIBOR plus the Variable Spread plus one half of one percent (0.5%);
- (b) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Variable Rate immediately prior to the application of the Default Interest Rate: the Default Variable Rate plus one half of one percent (0.5%); and
- (c) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Fixed Rate immediately prior to the application of the Default Interest Rate: Default

LIBOR plus the Fixed Spread plus one half of one percent (0.5%).”

29. “Default LIBOR” means LIBOR for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default LIBOR shall be equal to LIBOR for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.

30. “Default Variable Rate” means the Variable Rate for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default Variable Rate shall be equal to the Variable Rate for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”

(c) Paragraph 43 “Fixed Spread” (as re-numbered) is amended to read as follows:

“43. “Fixed Spread” means the Bank’s fixed spread for the initial Loan Currency in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement; provided, that upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines; and provided further that notwithstanding the foregoing, for purposes of determining the Default Interest Rate applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount.”

(d) Paragraph 56 “LIBOR Reset Date” (as re-numbered) is amended to read as follows:

“56. “LIBOR Reset Date” means: (a) for any Loan Currency other than Euro, the day two London Banking Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period of a Variable Spread Loan, the day two London Banking Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two London Banking Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period of a Fixed Spread Loan, the day two London Banking Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided, that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two London Banking Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to any Approved Currency other than Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date

for the Approved Currency shall be the day two London Banking Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided, that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the Conversion Date); (b) for Euro, the day two Target Settlement Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period for a Variable Spread Loan, the day two Target Settlement Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period for a Fixed Spread Loan, the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the Conversion Date); and (c) notwithstanding sub-paragraphs (a) and (b) of this paragraph, if, for a Currency Conversion to an Approved Currency, the Bank determines that market practice for the determination of the LIBOR Reset Date is on a date other than as set forth in said sub-paragraphs, the LIBOR Reset Date shall be such other date, as further specified in the Conversion Guidelines.”

(e) Paragraph 66 “Loan Payment” (as re-numbered) is amended to read as follows:

“66. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

(f) Paragraph 71 “Payment Date” (as re-numbered) is amended to read as follows:

“71. “Payment Date” means each date specified in the Loan Agreement occurring on or after the date of the Loan Agreement on which interest is payable.”

