

CONFORMED COPY

LOAN NUMBER 7718-TU

Loan Agreement

(First Programmatic Electricity Sector Development Policy Loan)

between

REPUBLIC OF TURKEY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 12, 2009

LOAN NUMBER 7718-TU

LOAN AGREEMENT

Agreement dated June 12, 2009, entered into between REPUBLIC OF TURKEY (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore 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 five hundred forty eight million and four hundred thousand Euro (EUR 548,400,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 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. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 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, provided that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of

the General Conditions. 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 payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are May 15 and November 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 2 to this Agreement.
- 2.07. (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 the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III - PROGRAM

- 3.01 The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.10 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;

- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V - EFFECTIVENESS

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

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Undersecretary of Treasury.
- 6.02. The Borrower's Address is:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek – Ankara
Turkey

Facsimile:
(312) 212-8550

- 6.03. 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:
INTBAFRAD
Washington, D.C.

Telex:
248423(MCI) or
64145(MCI)

Facsimile:
1-202-477-6391

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

REPUBLIC OF TURKEY

By: /s/ Ibrahim H. Canakci

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Ulrich Zachau

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Borrower under the Program include the following:

1. The Borrower has approved an updated Electricity Sector Strategy which provides for adequate measures to meet Turkey's growing electricity demand in an efficient and sustainable manner.
2. The Borrower has enacted Law No. 5784 published in the Official Gazette on July 26, 2008 amending the Electricity Market Law No. 4628 dated February 20, 2001 to monitor, evaluate and take measures to ensure security of electricity supply.
3. The Borrower has approved modified balancing and settlement regulations, published in the Official Gazette on April 14, 2009, to improve the functioning of the wholesale electricity market.
4. The Borrower has decided to provide, on a priority basis, the necessary budgetary allocations in line with approved transmission system investment plans.
5. The Borrower has approved revisions to retail electricity prices to offset the impact of increases in the cost of supply.
6. The Borrower has approved a cost-based pricing mechanism that automatically covers future increases in costs incurred by the Turkish Lignite Company, TETA□ E^ A□ TEDA□ and BOTA□ including the costs of electricity obtained on the wholesale market, and provides for periodic mandatory filings.
7. The Borrower has modified the process for payment for street lighting through the Law No. 5784 published in the Official Gazette on July 26, 2008.
8. The bidding process for privatization of the first two lots of electricity distribution companies has been launched by the Borrower's Privatization Administration, with winning bidders determined for the first two distribution companies in July 2008 and for the next two distribution companies in September 2008.
9. The Borrower has issued secondary regulations for implementation of the Energy Efficiency Law No. 5627 dated May 2, 2007 which covers, *inter alia*, authorizations for provision of training and research and development services; support to companies to augment their energy efficiency efforts and implementation of projects under voluntary agreements; implementation of supply side management; measures to increase efficiency

in electricity generation, transmission and distribution systems; measures to increase energy efficiency in the public sector; and energy efficiency in the transport sector.

Section II. Availability of Loan Proceeds

A. General. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section.

B. Allocation of Loan Amounts. The Loan shall be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Euro)
Single Tranche	548,400,000
TOTAL AMOUNT	<u>548,400,000</u>

C. Payment of Front-end Fee. No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. the withdrawal from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon deposit of the amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is December 31, 2009.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15	
beginning November 15, 2021 through November 15, 2024	5%
from May 15, 2025 through November 15, 2025	0%
from May 15, 2026 through May 15, 2032	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable

to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “BOTA” means Boru Hatlari ile Petrol Taahhütlü A.Ş., a joint stock company established and operating pursuant to its Articles of Association published in the Official Gazette dated April 17, 2005.
2. “Electricity Sector Strategy” means Electricity Market and Security of Supply Strategy approved by the Borrower’s High Planning Council on May 18, 2009.
3. “EMRA” means the Energy Market Regulatory Authority established and operating pursuant to the Electricity Market Law No. 4628 dated February 20, 2001.
4. “EUA” means Elektrik Enerji Üretim A.Ş., a joint stock company established and operating pursuant to the Council of Minister’s Decree dated March 2, 2001.
5. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank has financed or agreed to finance, or which the Bank has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

Group	Sub-group	Description of Item
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) under a contract with respect to which the Bank determines that an event has occurred under Section 7.03(c)(i) of the General Conditions.
6. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
7. "Program" means the program of actions, objectives and policies designed to achieve an efficient, reliable and adequate supply of electricity, as well as efficiency in its consumption, which program is set forth or referred to in the letter dated May 18, 2009, from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
8. "Single Tranche" means the amount of the Loan set forth in the table in Part B of Section II of Schedule 1 to this Agreement.
9. "TEDA" means Turkiye Elektrik Dagitim A. S., a joint stock company established and operating pursuant to the Council of Ministers' Decree No. 93/4789 dated August 12, 1993.

10. “TETA□” means Turkiye Elektrik Ticaret Ve Taahhut A. □, a joint stock company established and operating pursuant to the Council of Minister’s Decree dated March 2, 2001.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Paragraph (a) of Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
5. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*”

(c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

7. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

(c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

- (d) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Loan Agreement and repayable in accordance with Section 2.05.”