

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4824-TU

Loan Agreement

(Electricity Generation Rehabilitation and
Restructuring Project)

between

ELEKTRİK ÜRETİM A.Ş.

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 12, 2006

LOAN AGREEMENT

AGREEMENT dated September 12, 2006, between ELEKTRİK ÜRETİM A.Ş. (“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 eighty million Euro (€280,000,000) (“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 Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. 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, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. 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 - EFFECTIVENESS

- 4.01. The Additional Condition of Effectiveness consists of the following, namely that the amendment to the Regulation on the Control of Air Pollution from Industrial Sources to allow a transition period for existing thermal plants, including Afsin-Elbistan A Power Plant, to install flue gas desulfurization controls to meet sulfur dioxide emission standards, shall have become effective upon publication in the Official Gazette.
- 4.02. 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:

Elektrik Üretim A.Ş.
Genel Müdürlüğü
Inönü Bulvarı No. 27
Bahçelievler
Ankara, Turkey

Facsimile:

(90-312) 212 9430

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 Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

ELEKTRİK ÜRETİM A.Ş.

By /s/ Sefer Bütün
Authorized Representative

By /s/ Muzaffer Basaran
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink
Director
Turkey Country Unit
Europe and Central Asia

SCHEDULE 1

Project Description

The objective of the Project is to improve supply security during the reform transition and restructure the state-owned generation business into corporatized entities.

The Project consists of the following parts:

I. Afsin-Elbistan-A Rehabilitation

Rehabilitation of Afsin-Elbistan A Power Plant, including: (a) the repair, replacement and upgrade of power plant systems to restore reliability, availability and power output, and improve plant efficiency; (b) the upgrade of environmental protection systems and environmental monitoring; (c) the improvement of operational and maintenance practices - particularly maintenance monitoring systems, predictive maintenance based on historical data analysis, and maintenance planning/scheduling; and (d) investments to meet UCTE standards for primary and secondary frequency control required to integrate with the South East European market.

II. Support for Financial and Operational Restructuring of the Generation Business

Provision of assistance to support the Borrower in restructuring its generation business into financially and operationally viable portfolio companies and a hydro corporation and implementing mechanisms to address generation supply security needs in the medium-term.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. The Borrower shall, through the PMT, oversee the overall implementation of the Project. 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 implement the EIA and 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 EIA and EMP.
3. Without limitation upon the provisions of Section 7.02 (h) of the General Conditions, the Borrower shall consult with the Bank prior to the finalization of any strategy related to the sale, lease, transfer, assignment or disposal of the Afsin-Elbistan power sector assets, comprising power plant A, power plant B and the mining assets in the Afsin Elbistan area owned by the Borrower.

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 quarter, and shall be furnished to the Bank not later than 45 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 45 days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, 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.

4. The Borrower shall have the enterprise resource planning program installed and functional by December 31, 2007.

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)	Selection based on Consultants' Qualifications
(b)	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.

1. 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)	273,600,000	100% of foreign expenditures, 100% local expenditures (ex-factory cost) and 85% of other items procured locally
(2) Consultants' services	5,700,000	100%
(3) Front-end Fee	700,000	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>280,000,000</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 \$500,000 may be made for payments made prior to this date but on or after April 30, 2006 for Eligible Expenditures under Category (2).

2. The Closing Date is December 31, 2011.

Section V. Other Undertakings

1. (a) Except as the Bank shall otherwise agree, the Borrower shall: (i) produce, for each of its fiscal years, funds from internal sources equivalent to not less than 25% for the fiscal year 2006 and in each succeeding fiscal year of the Borrower's capital expenditures during the fiscal year concerned; and (ii) ensure that the net revenues of the Borrower shall be at least 1.2 times in 2006 and each succeeding fiscal year, the estimated maximum debt service requirements of the Borrower for any such fiscal year on all debt of the Borrower.

(b) If any fiscal projections show that the Borrower would not meet the requirements set forth in paragraph (a) of this Section for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all measures necessary on its part in order to meet such requirements.

(c) 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, customer deposits and customer 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, license fees, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges and income taxes), debt service requirements, all cash dividends and other cash outflows other than capital expenditures, increase in working capital other than cash.

- (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.
- (iii) The term “working capital other than cash” means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term “current assets excluding cash” means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.
- (v) The term “current liabilities” means all liabilities which will become due and payable or could under circumstances then existing be called for payment within 12 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (vi) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vii) The term “capital expenditures” means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations, averaged over a 3 year period covering the year concerned and the year preceding and the year succeeding such year.
- (viii) The term “debt” means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.
- (ix) The term “net revenues” means the difference between:

- (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations, including license fees, administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (x) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

SCHEDULE 3**Amortization Schedule**

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Euro*)</u>
On each March 15 and September 15	
beginning September 15, 2011	
through March 15, 2021	14,000,000

* 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**Definitions**

1. “Category” means a category set forth in the table in Section IV of Schedule 2 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 IVA.1 of Schedule 2 to this Agreement, as may be revised from time to time.
4. “EIA” means the environmental impact assessment dated September 9, 2005, describing the environmental issues for the Project.
5. “EMP” means the Environmental Management Plan, dated January 18, 2006 and approved by the Bank describing the environmental issues, mitigation, monitoring and institutional measures for the Project.
6. “Elektrik Üretim A.Ş.” means a joint stock company established and operating pursuant to the Council of Ministers’ Decree No. 2001/2026 dated February 5, 2001.
7. “fiscal year” means the fiscal year of the Borrower starting on January 1 and ending on December 31 of each year.
8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
9. “PMT” means the Project Management Team established within EUAS to oversee Project implementation.
10. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
11. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 26, 2006 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.

12. “Regulation on the Control of Air Pollution from Industrial Sources” means the regulation published in the Guarantor’s Official Gazette No. 25606, dated October 7, 2004.
13. “UCTE” means the Union for the Coordination of Transmission of Electricity in Europe.