

CONFORMED COPY

LOAN NUMBER 3345-0-TU

Loan Assumption Agreement

(TEK Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

TURKIYE ELEKTRIK ILETIM VE URETIM A.S.

Dated July 5, 1995

LOAN NUMBER 3345-0-TU

LOAN ASSUMPTION AGREEMENT

AGREEMENT, dated July 5, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TURKIYE ELEKTRIK ILETIM VE URETIM A.S. (the Borrower or TEAS).

WHEREAS (A) by a loan agreement between the Bank and Turkiye Elektrik Kurumu (TEK), dated September 13, 1991 (the Loan Agreement), the Bank made a loan (the TEK Loan) to TEK in an amount in various currencies equivalent to \$300,000,000 on the terms and conditions set forth in the Loan Agreement;

(B) by a guarantee agreement between the Republic of Turkey (the Guarantor) and the Bank, dated September 13, 1991 (the Guarantee Agreement) the Guarantor guaranteed all the obligations of TEK contained or referred to in the Loan Agreement on the terms and conditions set forth in the Guarantee Agreement;

(C) by Decree No. 93/4789 of the Guarantor, the Borrower and Turkiye Elektrik Dagitim A.S. (TEDAS) were created and the Borrower assumed TEK's functions, assets and liabilities relating to power generation and transmission, and TEDAS assumed TEK's functions, assets and liabilities relating to power distribution;

(D) the Borrower has agreed to assume a portion of the TEK Loan in the amount of \$260,000,000 equivalent, of which the principal amount of about \$80,000,000

equivalent was disbursed and outstanding as of November 20, 1994;

(E) TEDAS has agreed to assume a portion of the TEK Loan in the amount of \$40,000,000 equivalent;

(F) the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Loan Assumption Agreement, has requested the Bank to agree to the undertaking by the Borrower of the obligations in respect of the Loan as provided in this Loan Assumption Agreement;

(G) the Bank has agreed to the request of the Borrower;

(H) this Loan Assumption Agreement and the Loan Assumption Agreement of even date herewith between the Bank and TEDAS supersede the Loan Agreement;

(I) by an amended guarantee agreement between the Guarantor and the Bank of even date herewith (the Amended Guarantee Agreement) the Guarantor guaranteed all obligations of the Borrower contained or referred to in this Loan Assumption Agreement on the terms and conditions set forth in the Amended Guarantee Agreement; and

WHEREAS the Bank has agreed on the basis, inter alia, of the foregoing, to enter into this Loan Assumption Agreement on the terms and conditions hereinafter set forth;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "Special Account" means the account referred to Section 2.02 (b) of this Agreement;

(b) "CPP" means the Corporate Performance Plan referred to in Section 3.02 (a) of this Agreement;

(c) "FMIP" means the Financial Management Improvement Program referred to in Part A (1) (c) of the Project;

(d) "OMIP" means the Operational Management Improvement Program referred to in Part A (1) (b) of the Project;

(e) "MIS" means the Borrower's Management Information System referred to in Part A (1) (d) of the Project;

(f) "DSI" means Devlet Su Isleri, the hydraulic works agency of the Guarantor;

(g) "Program" means Turkey's least cost Investment Program for the power

sub-sector;

(h) "Lira" means the currency of the Guarantor;

(i) "Decree No. 93/4789 of the Guarantor" means the law pursuant to which the Borrower was established and is operating; and

(j) "Energy Sales Agreement" means the agreement referred to in Section 3.01 (c) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Borrower agrees to assume a portion of the TEK Loan in the amount of two hundred sixty million dollars (\$260,000,000) equivalent in accordance with the provisions of this Agreement. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of two hundred and sixty million dollars (\$260,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank or in the Central Bank of the Guarantor on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise.

than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall enter into an energy sales agreement with TEDAS, on the basis of terms and conditions satisfactory to the Bank, setting forth the energy purchase and sales arrangements between the Borrower and TEDAS.

Section 3.02. The Borrower shall: (a) prepare, following an exchange of views with the Bank, and furnish to the Bank, by October 31 in each year, a Corporate Performance Plan (CPP) for the following fiscal year of the Borrower, which shall set forth, in a manner consistent with the Borrower's obligations under the Loan Agreement: (i) the physical targets for the Borrower, including the components of the Program to be carried out during the concerned fiscal year and the investments under such components to be financed from the proceeds of the Loan; (ii) the financial targets for the Borrower, including a financial projection showing whether the Borrower would comply with its obligations under Section 5.02 (a) of this Agreement, the measures for financial restructuring and the actions to be taken towards implementation of the FMIP, (iii) the operational and commercialization targets for the Borrower, including actions to be taken towards implementation of the OMIP, and (iv) the Borrower's levels of services, borrowing needs, financing plan and tariff levels and structures;

(b) obtain the Guarantor's approval of the CPP and of the actions required thereunder, and furnish to the Bank the final version of each CPP prior to the start

of the year covered by
it; and

(c) exchange views regularly with the Bank with respect to progress in the carrying out of the CPPs.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(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 for the future operation of Part B of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry out its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. The Borrower shall not, without the consent of the Bank, sell, lease, transfer, or otherwise dispose of any of its properties or assets which shall be required for the efficient carrying out of its business and undertakings, including the carrying out of the Project.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account 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 months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) 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, in accordance with paragraph (a) of this Section, records and 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.

Section 5.02. (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 35% for the fiscal year 1995 and in each succeeding fiscal year of the average of the Borrower's capital expenditures during the fiscal year concerned; (ii) maintain, beginning with the fiscal year 1995, a ratio of current assets to current liabilities of not less than 1.0; and (iii) ensure that the estimated net revenues of the Borrower shall be at least 1.5 times in 1995 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 projection referred to in Section 3.02 (a) (ii) of this Agreement 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 (including, without limitation, adjustments of the structure or levels of its tariffs) 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, 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 and income taxes), debt service requirements, all cash dividends and other cash outflows other than capital expenditures, increase in working capital other than cash and any payments made by the Borrower to the Guarantor's Public Participation Administration for hydro generation.

(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 twelve 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 three-year period covering the year concerned and the year preceding and the year succeeding such year.

(viii) The term "current assets" means cash, all assets 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.

(ix) 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.

(x) The term "net revenues" means the difference between:

(A) the sum of revenues from all sources related to operations adjusted to take account of the Borrower's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and

(B) the sum of all expenses related to operations, including 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.

(xi) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, 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.

Section 5.03. The Borrower shall take all action required on its part to ensure that the outstanding amounts in the Borrower's accounts receivable will represent, on average no more than the equivalent of one month's billing during the year 1995 and thereafter.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) that Law No. 233 or Decree No. 93/4789 of the Guarantor or the Bylaws of the Borrower governing the Borrower's activities, as amended to the date of this Agreement, shall have been further amended, or suspended, or abrogated, or repealed, or waived in such a way as to materially and adversely affect the ability of the Borrower to carry out the covenants, agreements and obligations set forth in this Agreement; and

(b) that the Energy Sales Agreement between the Borrower and TEDAS, as amended to the date of this Agreement, shall have been further amended, or suspended, or abrogated, or repealed, or waived in such a way, as to materially and adversely affect the ability of the Borrower to carry out the covenant agreements and obligations set forth in this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, that the events specified in Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date

Section 7.01. (a) This Loan Assumption Agreement shall become effective on the date upon which the Bank dispatches to the Borrower notice of its acceptance of evidence that:

(i) the execution and delivery of this Loan Assumption Agreement on behalf of the Borrower has been authorized or ratified by all necessary governmental and corporate action;

(ii) the Energy Sales Agreement has been executed on behalf of the Borrower and TEDAS on the basis of terms and conditions satisfactory to the Bank;

(iii) all conditions precedent to the effectiveness of the TEDAS Loan Assumption Agreement and the Amended Guarantee Agreement have been fulfilled, other than those related to the effectiveness of this Loan Assumption Agreement; and

(iv) the Borrower has furnished to the Bank the Borrower's CPP, approved by the Guarantor, for the 1995 calendar year.

(b) As part of such evidence, there shall be furnished to the Bank an opinion satisfactory to the Bank of counsel acceptable to the Bank showing, on behalf of the Borrower that this Loan Assumption Agreement and the Energy Sales Agreement have been duly authorized or ratified and executed and delivered on behalf of the Borrower and are legally binding upon the Borrower in accordance with their terms.

Section 7.02. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The General Manager of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For the Borrower:

Turkiye Elektrik Iletim ve Uretim A.S.
Genel Mudurlugu
Inonu Bulvari, No. 27
Bahcelievler
Ankara, Turkey

Cable address:

TEK
Ankara

Telex:

42247 TEK TR

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rachel Lomax

Acting Regional Vice President
Europe and Central Asia

TURKIYE ELEKTRIK ILETIM VE URETIM A.S.

By /s/ Mahfi Egilmez

Authorized Representative

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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods (including associated works and services) under Part B of the Project	238,000,000	(a) 100% of foreign expenditures and 100% of local expenditures (ex-factory cost) with respect to contracts for goods only; and (b) 85% with respect to turn-key contracts, providing for the supply of goods in addition to associated works and services
(2) Consultants' services under Part B of the Project	3,000,000	100%
(3) Unallocated	19,000,000	
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TOTAL	260,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. 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; and (b) payments under any contract to be financed under Category (1) unless such contract is required for the carrying out of an investment included in a CPP which has been approved pursuant to the provisions of Section 3.02 of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist in the carrying out of the Program and the corporate restructuring and privatization of the Borrower (TEAS) and TEDAS.

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:

Part A: TEAS Component

(1) Restructuring of TEAS

The carrying out of measures for the restructuring and privatization of TEAS, including:

(a) The preparation and implementation of a policy for electricity pricing by TEAS, providing for the setting and adjustments of tariff levels on the basis of the economic cost of electricity supply under the Program.

(b) The implementation by TEAS of an Operational Management Improvement Program (OMIP), including the establishment of a proper costing basis and a modern cost accounting system, formulation of basis for the tariff system, implementation of measures for optimal utilization by TEAS of hydro and thermal generation plants and for recovery of its fuel costs, identification of efficiency levels and the potential for efficiency improvements in all areas of TEAS' operations, and the establishment of commercially-oriented cost centers for each of TEAS' generation plants and for its general management organization and transmission system.

(c) The implementation by TEAS of a Financial Management Improvement Program (FMIP), including the remodeling of its accounting policies and practices, recasting of its financial position in accordance therewith and improving its billing and collection practices.

(d) The formulation and implementation by TEAS of a management information system (MIS).

(e) The restructuring of TEAS' capital and debt, through infusion of equity and modification of the terms of debt.

(f) The privatization of selected portions of TEAS' infrastructure.

(g) The maintenance within TEAS of a Department for the Environment to be responsible for the preparation of environmental assessments of all major power investments, coordination and monitoring of environmental policies and standards, evaluation of environmental technologies and training of staff of TEAS on aspects related thereto.

(2) Power Investments by TEAS

The provision, as projected in the CPPs, of equipment, material and services required for power generation and transmission under the Program, including transmission lines, substations, generation equipment and spares.

Part B: TEDAS Component

(1) Restructuring of TEDAS

The carrying out of measures for the restructuring and privatization of TEDAS, including:

(a) The preparation and implementation of a policy for electricity pricing by TEDAS, providing for the setting and adjustments of tariff levels on the basis of the economic cost of electricity supply under the Program and the agreed financial covenants for TEDAS under Article V of this Agreement.

(b) The implementation by TEDAS of an Operational Management Improvement Program (OMIP), including the establishment of a proper costing basis and a modern cost accounting system, formulation of basis for the tariff system, identification of efficiency levels and the potential for efficiency improvements in all areas of TEDAS' operations, and the establishment of commercially-oriented cost centers for each of the distribution enterprises and for its general management organization.

(c) The implementation by TEDAS of a Financial Management Improvement Program (FMIP), including the remodeling of its accounting policies and practices, recasting of its financial position in accordance therewith and improving its billing and collection practices.

(d) The formulation and implementation by TEDAS of a management information system.

(e) The restructuring of TEDAS' capital and debt, through infusion of equity and modification of the terms of debt.

(f) The privatization of selected portions of TEDAS' infrastructure.

(g) The establishment within TEDAS of a Department for the Environment to be responsible for the preparation of environmental assessments of all major power investments, coordination and monitoring of environmental policies and standards, evaluation of environmental technologies and training of staff of TEDAS on aspects related thereto.

(2) Power Investments by TEDAS

The provision, as projected in the CPPs, of equipment and materials required for power distribution under the Program, including distribution lines, substations, distribution equipment and spares.

* * *

The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15 beginning November 15, 1996 through November 15, 2007	10,835,000
and on May 15, 2008	10,795,000

* The figures in this column represent the dollar equivalent determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage

specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement

Section I: Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1 of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days, and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Turkey may be granted a margin of preference in

accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Spare parts estimated in the aggregate to cost the equivalent of not more than \$5,430,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from three member countries eligible under the Guidelines in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

Implementation Program

1. The Borrower shall take all action required on its part to ensure: (a) the preparation and implementation, by December 31, 1995, of the electricity pricing policy referred to in Part B (1) of the Project; and (b) until such policy is implemented, the maintenance of electricity prices to final consumers, net of all payable taxes and levies, at a minimum average equivalent to \$.06 for each Kwh of electricity sold.
2. The Borrower shall ensure the development of the costing basis for tariffs required for the carrying out of Part B (1) of the Project, by December 31, 1995.
3. The Borrower shall ensure the implementation, with the assistance of advisers to be employed in accordance with time schedules satisfactory to the Bank, of measures included in the FMIP and the MIS by December 31, 1995, and December 31, 1996, respectively.
4. The Borrower shall: (a) implement the recommendations of its ongoing environmental review of proposed distribution systems investments in the course of the design and construction thereof; and (b) continue to maintain and adequately staff the Environmental Department referred to in Part B (7) of the Project.
5. The investments included in the Program and to be financed out of the proceeds of the Loan shall be selected by the agreement of the Borrower and the Bank and shall be incorporated in the CPP for the year concerned, together with the corresponding financial plans.
6. The Borrower shall: (a) continue to maintain, in a manner satisfactory to the Bank, an adequately staffed committee under its Assistant General Manager to oversee the implementation of Part B of the Project, and a Project Manager to be responsible for the technical and administrative functions under said Part B of the Project and for coordinating the procurement of goods thereunder, and (b) cause such committee, in particular, to monitor the implementation of obligations and achievement of targets set forth in the CPPs.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means the Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term "Authorized Allocation" means an amount equivalent to \$25,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$15,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$50,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank

shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

