

CONFORMED COPY

LOAN NUMBER 4344 TU

Loan Agreement

(National Transmission Grid Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

TURKIYE ELEKTRIK ILETIM VE URETIM A.S.

Dated June 25, 1998

LOAN NUMBER 4344 TU

LOAN AGREEMENT

AGREEMENT, dated June 25 , 1998 between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TURKIYE ELEKTRIK ILETIM VE URETIM A.S. (the Borrower).

WHEREAS (A) the Republic of Turkey (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended

through December 2, 1997) (the General Conditions) constitute an integral part of this Agreement.

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

(a) "BEST" means the bulk electricity supply tariff of the transmission grid system;

(b) "CPP" means the Corporate Performance Plan of the Borrower referred to in Section 3.03 (a) of this Agreement;

(c) "Decree No. 93/4789" dated August 12, 1993, means the decree of the Guarantor pursuant to which the Borrower was established and is operating;

(d) "Decree Law No. 233" dated June 8, 1984, means the decree law of the Guarantor relating to state-owned enterprises;

(e) "fiscal year" means the fiscal year of the Borrower starting on January 1 and ending on December 31 of each year;

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

(g) "TSO framework" means the Transmission System Operations framework for the independent operation of the transmission grid and load dispatch facilities.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to two hundred seventy million Dollars (\$270,000,000).

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 satisfactory to the Bank or in the Central Bank of the Guarantor on terms and conditions satisfactory to the Bank, including protection against set-off, seizure and attachment. 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, 2003, 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Guarantor and the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of 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 the Project with due diligence and efficiency and in conformity with appropriate financial, engineering, environmental and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for 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 the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement. Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. 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 CPP for the following fiscal year of the Borrower, which shall set forth, in a manner consistent with the Borrower's obligations under this Agreement: (i) the generation and transmission system expansion targets for the Borrower, including the components of the capital expenditures 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 5.03 (a) of this Agreement; and (iii) 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 fiscal year covered by it; and

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

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, 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 the Project; and

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

#### 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, environment 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 establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures for and in connection with the carrying out of the Project.

(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 auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank who shall be employed by December

31, 1998;

(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 the financial statements referred to in paragraph (a) above for such year as so audited; and (B) an opinion on such statements and a 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may 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, or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representative 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 expenditures 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. The Borrower shall take all action required on its part to receive an unqualified audit opinion from the independent auditors to be employed pursuant to Section 5.01 (b) (i) of this Agreement, for its financial statements for the calendar year 1998.

Section 5.03. (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 1998 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 1998, 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 1998 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 3.03 (a) (ii) of this Agreement shows that the Borrower would not meet the requirements set forth in paragraph (a) of this Section 5.03 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 power purchase costs, fuel costs, 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.
- (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 (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 three (3) 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 (12) 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 (12) month period to which such revenues relate and net non-operating income; and
  - (B) the sum of all expenses related to operations, including power purchase costs, fuel costs, 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 5.04. The Borrower shall take all action required on its part to maintain an accounts receivable level at not more than forty-five (45) days of average daily electricity sales during each calendar year.

#### ARTICLE VI

##### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that Decree Law No. 233 or Decree No. 93/4789 of the Guarantor or the by-laws of the Borrower governing the Borrower's activities, as amended to the date of this Agreement, shall have been further amended, suspended, abrogated, 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.

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

ARTICLE VII

Termination

Section 7.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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:

248423 (MCI) or  
64145 (MCI)

For the Borrower:

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

Cable address:

Telex:

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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/ James Wolfensohn

President

TURKIYE ELEKTRIK ILETIM VE URETIM A.S.

By /s/ Gunes Taner

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)	236,000,000	(a) 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of other items procured locally 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	7,000,000	100%
(3) Unallocated	27,000,000	
TOTAL	270,000,000	

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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$10,000,000, may be made on account of payments made for expenditures before that date but after June 30, 1997.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for goods not exceeding \$250,000 equivalent; and (b) contracts for employment of consulting firms not exceeding \$100,000 equivalent each under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Guarantor and the Borrower to: (a) continue the reform of the power sector; (b) develop adequate transmission grid capacity in a timely and environmentally sustainable manner; and (c) strengthen the financial viability of the Borrower.

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: Institutional Reform



Provision of consultants' services to:

- (1) establish an independent operation of the transmission grid system;
- (2) strengthen the capacity of the Borrower to carry out environmental analyses of grid investments;
- (3) implement a management information system;
- (4) strengthen the capacity of the Borrower to access the international capital markets; and
- (5) carry out training programs necessary for the foregoing institutional reform of the Borrower.

Part B: Grid Investment Program

- (1) Supply and installation of 380 kV substation equipment.
- (2) Supply and installation of 380 kV lines.
- (3) Supply and installation of 154 kV substations.
- (4) Supply and installation of 154 kV transmission lines and XLPE cables.
- (5) Implementation of a load dispatch modernization system and other automation systems.

\* \* \*

The Project is expected to be completed by June 30, 2003.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
October 15, 2002	7,045,000
April 15, 2003	7,255,000
October 15, 2003	7,470,000
April 15, 2004	7,690,000
October 15, 2004	7,915,000
April 15, 2005	8,150,000
October 15, 2005	8,390,000
April 15, 2006	8,640,000
October 15, 2006	8,895,000
April 15, 2007	9,160,000
October 15, 2007	9,430,000
April 15, 2008	9,710,000
October 15, 2008	9,995,000
April 15, 2009	10,290,000
October 15, 2009	10,595,000
April 15, 2010	10,905,000
October 15, 2010	11,230,000
April 15, 2011	11,560,000
October 15, 2011	11,905,000
April 15, 2012	12,255,000
October 15, 2012	12,615,000
April 15, 2013	12,990,000
October 15, 2013	13,375,000
April 15, 2014	13,770,000
October 15, 2014	14,175,000
April 15, 2015	14,590,000

\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

## SCHEDULE 4

### Procurement and Consultants' Services

#### Section I. Procurement of Goods

##### Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of this Section.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

##### Part C: Other Procurement Procedures

###### International Shopping

Goods estimated to cost less than \$70,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

##### Part D: Review by the Bank of Procurement Decisions

###### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

###### 2. Prior Review

With respect to all contracts estimated to cost the equivalent of \$1,000,000 or more awarded on the basis of the provisions of Part B of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

###### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

#### Section II. Employment of Consultants

##### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for carrying out environmental analyses under Part A of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for design and implementation of training under Part A (3) of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services for training under Part A (3) of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Selection Based on Consultants Qualifications

Services for training under Part A (3) of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms required for Part A of the Project estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms required for Part A of the Project estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) (i) continue to maintain, in a manner satisfactory to the Bank, an adequately staffed steering committee under its General Manager or an Assistant General Manager and a member of the Board of Directors of the Borrower to oversee implementation of the Project and to be responsible for the technical and administrative functions under the Project, including the procurement of goods thereunder; and (ii) continue to maintain the Borrower's World Bank Project Group reporting to an Assistant General Manager and a member of the Board of Directors of the Borrower to coordinate the implementation aspects of the Project; and

(b) cause said steering committee to monitor the implementation of the obligations and achievement of the targets set forth in the CPP.

2. The Borrower shall:

(a) prepare environmental analyses for investments under Part B of the Project in a manner satisfactory to the Bank and in accordance with an action plan as agreed from time to time between the Borrower and the Bank; and

(b) implement the recommendations of such environmental analyses in a manner satisfactory to the Bank.

3. The Borrower shall, acting in conjunction with the Guarantor, take all actions required on its part to carry out an action plan, satisfactory to the Bank, to put into effect the independent operation of the transmission grid system, which action plan shall comprise:

(a) the separation, by December 31, 1998, of the generation business of the Borrower from its transmission and load dispatch functions;

(b) the implementation of a TSO framework, by September 30, 2000, comprising: (i) arrangements for the operation of the electricity markets in Turkey; (ii) contractual matrix to be entered into by the Borrower as the national transmission grid and load dispatch company; (iii) issuance of a license for the operation of the transmission grid and load dispatch system; and (iv) the grid code defining rights and obligations of the users of the grid, including the Borrower;

(c) the implementation of a revised BEST regime by December 31, 1999, comprising: (i) the principles of transmission pricing; and (ii) the mechanisms for the application of transmission prices; and

(d) the deployment, by January 1, 2000, of a business plan for the Borrower as the national transmission grid and load dispatch company integrating the TSO framework, BEST regime and the institutional aspects of the independent operation of the transmission grid and load dispatch system.

4. The Borrower shall take all action required on its part to adjust electricity prices as frequently as necessary in a manner satisfactory to the Bank to ensure that:

(a) said prices to its consumers, net of all taxes and levies, are at a minimum equivalent to US\$0.032 per kilowatt hour on an annual average basis; and

(b) the Borrower is able to meet its obligations set forth in Section 5.03 (a) (i) of this Agreement.

5. The Borrower shall employ financial advisers, under terms of reference satisfactory to the Bank, to assist the Borrower in obtaining debt financing from the international markets, and such financial advisers are to be employed at least nine (9) months prior to the targeted date for obtaining such debt financing.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by October 31 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure

the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31 of each year, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means 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 \$20,000,000 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 \$10,000,000 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 \$27,000,000.

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.

