ENERGY COMMUNITY OF SOUTH EAST EUROPE PROGRAM

Project Agreement

(TURKEY COMPONENT – THIRD TEİAŞ PROJECT)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

TÜRKİYE ELEKTRİK İLETİM A.Ş.

Dated October 4, 2010
PROJECT AGREEMENT

Agreement dated October 4, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and TÜRKİYE ELEKTRİK İLETİM A.Ş. (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between the Republic of Turkey (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project and the Energy Community of South East Europe Program. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity’s Representative is its General Manager.

3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INTBAFRAD
Telex: 248423(MCI) or 1-202-477-6391
Facsimile: 64145(MCI)
3.03. The Project Implementing Entity’s Address is:

Türkiye Elektrik İletim A.Ş.
Genel Müdürlüğü
İnönü Bulvarı No. 27 T Blok
Bağcılar
Ankara, Turkey

Facsimile:
(312) 222-8160

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ulrich Zachau
Authorized Representative

TÜRKİYE ELEKTRİK İLETİM A.Ş.

By /s/ Kemal Yıldır
Authorized Representative
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

1. With respect to Part A of the Project:

   (a) the Project Implementing Entity shall furnish to the Bank for approval, sub-project investments proposed to be financed using the proceeds of the Loan; and

   (b) when presenting a proposed sub-project to the Bank for approval, the Project Implementing Entity shall demonstrate that the proposed sub-project satisfies criteria agreed with the Bank.

2. The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines which are applicable to all IBRD loans and IDA credits and grants.

3. The Project Implementing Entity shall: (a) implement the EMF and LAPF; (b) furnish to the Bank on a semi-annual basis, specific environmental reports and land acquisition reports, as required, providing results of any monitoring programs undertaken as part of the EMF and the status of land acquisition under the Project; and (c) not modify or waive, in whole or in part, the EMF or LAPF without the prior agreement of the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) 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 forty five (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 (6) months before the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Bank, as part of the Project Report, not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one Fiscal Year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

Section III. Procurement

All goods (including design, supply and installation) and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

Section IV. Access to Information

The Bank may disclose the Legal Agreements and any information related to the Legal Agreements in accordance with its policy on access to information, in effect at the time of such disclosure.

Section V. Other Undertakings

1. (a) Except as the Bank shall otherwise agree, the Project Implementing Entity shall:

(i) produce, for each of its Fiscal Years, funds from internal sources equivalent to not less than 35% for the Fiscal Year 2010 and in each succeeding Fiscal Year of the Project Implementing Entity’s capital expenditures during the Fiscal Year concerned;

(ii) maintain, beginning with the Fiscal Year 2010, a ratio of current assets to current liabilities of not less than 1.0; and

(iii) ensure that the net revenues of the Project Implementing Entity shall be at least 1.5 times in 2010 and each succeeding Fiscal Year, the estimated maximum debt service requirements of the Project Implementing Entity for any such Fiscal Year on all debt of the Project Implementing Entity.

(b) If any fiscal projections show that the Project Implementing Entity would not meet the requirements set forth in sub-paragraph (a) of this paragraph 1 for the Project Implementing Entity’s Fiscal Years covered by such review, the Project
Implementing Entity shall promptly take all measures necessary on its part in order to meet such requirements.

(c) For the purposes of this paragraph 1:

(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 (12) 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 Project Implementing Entity 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 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.

(xi) Whenever for the purposes of said paragraph 1 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.