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Natural Gas Market License Regulation

PART ONE

General Provisions

SECTION ONE

Objective, Scope, Legal Basis and Definitions

Objective

Article 1 – The objective of this regulation is to set forth the principles and procedures related to the licenses to be issued to legal entities engaged or to be engaged in natural gas market activities.

Scope

Article 2 — This Regulation shall cover the principles and procedures applicable to issuance of licenses to legal entities engaged or to be engaged in natural gas market activities, performance of the activities within the scope of licenses, cancellation, termination, renewal and modification of licenses and the rights and obligations of the licensees.

Legal Basis

Article 3 — This Regulation has been issued pursuant to the provisions the Electricity Market Law no. 4628 and Natural Gas Market Law no. 4646.

Definitions

Article 4 — For the purposes of interpretation and implementation of this Regulation, the following terms and abbreviations shall bear the following meanings:

- 1) Law: Natural Gas Market Law No. 4646 dated 18/4/2001.
- 2) Authority: Energy Market Regulatory Authority.
- 3) Board: Energy Market Regulatory Board.
- 4) President: President of the Energy Market Regulatory Board.
- 5) Accessible capacity: the capacity remaining after capacity sales of transmission or storage companies.
- 6) Interconnected System: systems reciprocally connected to each other and together forming the whole system.
- 7) Distribution: the retail of natural gas and the transportation of it through the local gas pipeline network for the purpose of delivering to customers.
- 8) Distribution Network: natural gas distribution facilities and pipelines operated by a distribution company in a specified city.
- 9) Distribution Company: a legal entity authorized to carry out natural gas distribution and transportation activities through a local gas pipeline network within a specified city.

- 10) Storage: storing the natural gas as in gaseous or liquefied natural gas (LNG) form in order to meet daily and seasonal fluctuations and to cover natural gas deficiency as a result of shortages or interruption of gas supply.
- 11) Storage Company: a legal entity authorized to engage in natural gas storage activities.
- 12) Storage Facility: a facility used for storing natural gas or LNG and owned or operated by a legal entity, excluding the facilities used for production.
- 13) Natural Gas: natural hydro-carbons in the gas form that have been extracted or that can be extracted from the ground and the other forms of it that has been liquefied, compressed or physically processed (except for Liquefied Petroleum Gas – LPG) by certain methods to be presented to the market.
- 14) Direct Line: any natural gas pipeline which feeds an eligible consumer so that an interconnected system is formed, transportation of natural gas by using special vehicles between cities, sale of natural gas by reducing its pressure in places to which transmission networks have not been connected.
- 15) Export Company: any legal entity which exports natural gas it has purchased from production and wholesaling companies or import companies.
- 16) Transmission: transportation of natural gas through a natural gas pipeline network other than distribution networks and collecting lines for production or Liquefied Natural Gas (LNG) vehicles and vessels.
- 17) Transmission Company: legal entity engaging in transmission activity.
- 18) Applicable legislation: laws, regulations, communiqués and circulars and Board decisions pertaining to the natural gas market and the license or licenses held by the legal entity in question.
- 19) Affiliate: any company that controls alone or jointly with other company(ies) or real person(s), directly or indirectly another legal entity or any legal entity under common control of, directly or indirectly, alone or jointly with other company(ies) or real person(s); and direct or indirect relations between or among such company(ies) and/or legal entity(ies) operating in the market.
- 20) Import Company: any legal entity which imports natural gas in LNG or gas state from abroad for subsequent sale thereof to wholesale companies, eligible customers or export companies or for direct exportation thereof.
- 21) Control: the right to exercise direct or indirect control over the capital or the assets of any legal entity or the right to use more than half of its voting rights or to have the right to assign more than half of the members of its management and audit boards or to have the right to assign more than half of the members of an organ representing that legal entity.
- 22) License: authorization granted by the Board to any legal entity, for each market activity, in accordance with the Law to enable such legal entity to carry out market activities.
- 23) Local Gas Pipeline: all distribution lines which are to be constructed and operated by a city distribution company.
- 24) Market Activity: purchasing and selling or service or commercial activities including transmission, distribution, wholesale, import, export and storage of natural gas in liquid form in LNG facilities or in gas state or as compressed gas in underground and ground facilities and transactions associated with these operations.
- 25) Eligible Customer: any real person or legal entity who has right to enter into a natural gas sale and purchase contract with any production, import, distribution or wholesale company within the country.
- 26) Non-eligible Customer: any real person or legal entity who has to purchase natural gas from distribution companies for his own use.

Disclaimer:

- 27) Certificate: any authorization granted by the Board to confirm that any real person or legal entity, who will design, construct, overhaul, maintain-repair, supervise, consult for facilities owned by a legal entity engaged in natural gas operations, which will constitute a part of the system, and provide similar services have the required qualifications.
- 28) Compressed Natural Gas (CNG): compressed state of natural gas.
- 29) Compressed natural gas (CNG) distribution, transmission and sale: compression of natural gas purchased from wellhead or the national transmission system or city distribution system, filling into pressurized containers, and transportation of compressed natural gas by special vehicles between cities and sale thereof by reducing its pressure at places which transmission network does not reach.
- 30) Liquefied Natural Gas (LNG) Facility: facilities which are used for the liquefaction of natural gas or the offloading, storage and re-gasification of LNG.
- 31) System: any facility and installation constructed to perform production, transmission, storage and distribution activities of natural gas.
- 32) System User: any real person or legal entity taking gas from the system or supplying gas to the system or taking transit natural gas transmission services through the system.
- 33) City: all of developed areas in the territory of Municipality or Metropolitan Municipality.
- 34) Tariff: any regulation which consists of prices, terms and conditions applicable to natural gas transmission, distribution, storage, in LNG or gas state, and sale of natural gas.
- 35) Transportation Contract: any contract entered into by and between system users and transmission companies for transportation of natural gas.
- 36) Supplier: import companies, wholesale companies and production companies which sell natural gas to eligible consumers and CNG companies, export companies, import companies and wholesale companies conducting market operations.
- 37) Delivery Contract: any contract entered into by and between system users or any person acting on behalf thereof and transmission companies or between storage companies and transmission companies or between transmission companies for delivering and taking over of natural gas.
- 38) Wholesale: sale of natural gas to the distribution companies and to eligible customers.
- 39) Wholesale Company: legal entity engaged in wholesale activity of the natural gas, without performing the activity of transmission or distribution within or outside the system.
- 40) Transit Line: any pipeline constructed in order to convey natural gas coming from abroad directly to another country.
- 41) Legal Entity (company): private or public legal entity established to conduct the functions of production, transportation, distribution, wholesale, export, import, trading or storage of natural gas in accordance with the provisions of the Law.
- 42) National Transmission Network: high-pressure pipelines which constitute a part of the National Transmission System.
- 43) National Transmission System: system which consists of a national transmission network, which is used for transmission of natural gas throughout the country, and distribution, storage, liquefaction, regasification and other similar transmission facilities.
- 44) Production: extraction from the underground reserves in Turkey, processing, conveying through collecting lines to the transmission lines of natural gas, in accordance with Petroleum Law No. 6326 dated 07 March 1954.
- 45) Production Company (Operator): any legal entity performing production activities in Turkey.

SECTION TWO

License and Licensing Requirement, Types and Terms of Licenses License and Licensing Requirement

Article 5 — License is an authorization issued by the Board, for each market activity, to legal entities in order for them to operate in the market. Legal entities wishing to engage in natural gas market activities shall be obligated to obtain licenses from the Authority.

Licenses may, under no condition, be transferred. However, if the banks and/or finance institutions provide limited or irrevocable project financing to the related licensee, within the scope of their loan agreements, the related banks and/or finance institutions may request the Authority, together with their justification, that another legal entity be granted the related license on the condition to assume all obligations of the related licensee within the framework of the provisions of this Regulation. The legal entity proposed by such institutions shall be granted the related license on the condition to comply with the obligation indicated herein.

The rights of the licensee under its license may not be assigned to third parties without Board approval.

In cases where it is understood that activities are being conducted in the market without being granted the relevant license, the procedures indicated in Article 9 of the Law shall be applied in relation to the relevant legal entity.

Legal entities shall obtain separate licenses for each activity and separate licenses for each facility in cases where the same activity shall be undertaken in different facilities.

Following the issuance of each license, a separate registry file shall be opened for each licensee and registers shall be maintained as per the provisions of the applicable legislation.

Types of Licenses

Article 6 — Types of licenses that shall be obtained from the Authority, based on activities to be conducted are as follows:

- a) Import license,
- b) Transmission license,
- c) Storage license,
- d) Wholesale license,
- e) Distribution license,
- f) Compressed natural gas (CNG) license,
- g) Export license.

Terms of Licenses

Article 7 — Licenses shall be issued to be valid for a minimum period of ten, a maximum period of thirty years.

SECTION THREE

License Application, Review and Evaluation, Effectiveness of Licenses, License Fees and Participation Contribution

License application

Article 8 — In cases where the legal entities, subject to provisions of civil law, to be engaged in market activities are established as joint stock companies or limited liability companies as per the provisions of Turkish Commercial Law no. 6762, dated 29.6.1956, all of their shares shall be registered to name.

In order to be granted the relevant licenses to be engaged in market activities, the legal entities shall file applications with the Authority by submitting the documents indicated in Schedule 3 in full together with the License Application Form in Schedule 1 and the Commitment form in Schedule 2.

The evaluation regarding whether or not the documents requested from the legal entities for application have been delivered in compliance with the provisions of the applicable legislation shall be completed and the results notified to the applicants in writing within five working days following the registration of the application documents in the Register of the Authority at the Headquarters.

In case the lacking points in the applications, that are not deemed to be delivered in compliance with the provisions of the applicable legislation, are not corrected within five days following the date of written notification, such applications shall be deemed as not filed and application documents shall be returned to the applicants.

Transactions pertaining to the application, prequalification, tender and evaluation for and issuance of city distribution licenses shall be performed as per the provisions of the Distribution and Customer Services Regulation.

Commencement of review and evaluation process regarding license applications

Article 9 — In order to commence the review and evaluation regarding applications that are deemed to be filed in accordance with the principles pertaining to license applications, the applicants shall be notified in writing to deposit one percent of the licensing fee to the account of the Authority within five days following the date of notification. In case of non-fulfillment of this obligation, the relevant application shall be deemed to have been rejected.

The review and evaluation process regarding any license application shall commence upon proving that one percent of the licensing fee is deposited to the Authority's account. Commencement of such process shall not mean that the relevant applicant has acquired the right to be issued the relevant license.

Review and evaluation

Article 10 — With respect to all types of licenses, the Authority shall give due regard to the following basic considerations during the review and evaluation of applications:

Conformity with the objectives set forth in the applicable legislation,

Protection of consumer rights, the promotion of competition and contribution to the development of market,

Financial strength of the legal entity and its financing capacity,

Experience and quality of performance of the applicants in domestic and international markets, if any.

Any additional information and document required for the finalization of the review and evaluation process may be requested from the applicant or the authorized representatives of the applicant may be invited for interviews.

Finalization of the review and evaluation process

Article 11 — The license applications of the legal entities to engage in natural gas market activities, to the Authority shall be responded by the Authority within sixty days following the commencement of the review and evaluation process.

The results of the review and evaluation process, carried out by the Authority, shall be submitted to the Board and the license application shall be finalized by a Board decision. In cases where a license application is rejected by a Board decision, the justifications for such

rejection shall be notified in writing to the related applicant within five working days following the Board decision.

The legal entity that is deemed eligible for obtaining a license, by a Board decision, as a result of the review and evaluation process, shall be notified in writing that the relevant license shall be issued upon fulfillment of the following obligations within ninety days:

- a) To amend the legal entity's articles of association, if required, in accordance with the provisions set forth in Schedule 4,
- b) To submit the document certifying that the remaining portion of the licensing fee is deposited to the account of the Authority.

Legal entity, which fulfills its obligations, shall be granted the relevant license as per the above said Board decision. The commercial title of the licensee and the type of the license acquired shall be published in the Official Gazette and announced in the Authority's website.

With the exception cases where force majeure conditions exist, any license application shall be rejected by a Board decision upon failure to fulfill these obligations within the specified period.

Effectiveness of licenses

Article 12 — Licenses and the rights and obligations of the licensees and shall come into effect as of the date set forth in the licenses.

License fees and participation contribution

Madde 13 — The licensing, annual license, license renewal, license modification and license duplication fees which shall be applicable for the next year and be deposited with the account of the Authority by the legal entities operating in the market shall be determined by the Board, published in the Official Gazette and announced in the Authority's website by the end of December of every year.

Licensing fees shall be determined as fixed amounts based on the field of activity; annual license fees shall be determined with respect to the field of activity and based on the amount of natural gas in question in relation to the relevant legal entity. Payments of such fees shall be made in accordance with the provisions of this Regulation.

License renewal, license duplication and license modification fees shall be paid in advance.

Annual license fee shall be calculated based on the amount of natural gas in question, in the preceding year, with respect to each licensee. Annual license fees shall be deposited in the Authority's account in three installments, each payment being made within the first five working days of the months of February, June and October, starting from the first calendar year following the date of payment of the remaining portion of the licensing fee.

Those liable for participation contribution are licensees. Amount of the participation contribution is calculated by multiplying their gross sales revenues, as stated in the income statement for their annual operating period, by the rate of participation contribution, which shall be determined by the Board, so as not to exceed 0.2% (two per mille) of the said gross sales revenues. The participation contribution rate to be applied for relevant year is announced in December of the preceding year.

A licensee shall pay the participation contribution so calculated to the Authority by the end of May in the year following the related operation year and concurrently submit the income statement.

In cases where annual license fee or participation contribution is not paid fully within the specified period, late payment interest that is determined in accordance with the provisions of

Article 51 of the Law no. 6183 on Procedures for Collection of Public Receivables shall be applicable to the outstanding amount.

SECTION FOUR

Modification, Renewal, Termination and Cancellation of Licenses

Modification of licenses

Article 14 — The licenses can be modified upon the request of the licensee or in cases where required by practices within the scope of the applicable legislation or due to legal amendments. Accordingly, the licenses can be modified;

- a) With respect to modifications requested by the licensee; if the justification put forth by the licensee for the modification is deemed reasonable;
- b) With respect to modifications required by practices within the scope of the applicable legislation; if modification of any license provision is required within the framework of regulatory issues such as revenue regulation principles, pricing principles or performance standards;
- c) With respect to modifications required due to legal amendments; if modification of any license provision becomes compulsory in line with the amendments made in the legislation to be observed by the licensee.

The license modifications upon the request of the licensee and those required by practices within the scope of the applicable legislation shall not include any provision that would interfere with free competition conditions. The license modifications shall be performed with due regard to the principle of non-discrimination among licensees.

In cases where the licensee needs a certain amount of time to fulfill the new and/or additional obligations arising from the modification of the license, the said period shall be determined by a Board decision and shall be indicated in the modified licenses.

With respect to modifications to be made upon the request of the licensee, if the special conditions of the license are subject to modification, the license shall be modified upon submission of the document certifying that the license modification fee has been deposited in the account of the Authority within thirty days following the affirmative decision of the Board regarding such modification request. If such obligation is not fulfilled, the related license modification application shall be deemed to have been rejected.

Renewal of licenses

Article 15 — Licenses may be renewed, upon the request of the licensee, to be in effect for a minimum period of ten and a maximum period of thirty years as of the termination of the term of the license in question.

License renewal request shall be made in the form of a written application filed with the Authority at most one year and at least nine months prior to the expiry of the term of the license in effect.

License renewal request shall be reviewed with due concern to

- a) whether the licensee has conducted its activities in conformity with the objectives set forth in the applicable legislation,
- b) the licensee's relations with the consumers with respect to compensation of consumers' damages;
- c) complaints against the licensee and remedy period for such complaints;
- d) sanctions and penalties applied to the licensee.

The review and evaluation process pertaining to license renewal applications shall be finalized within sixty days following the filing of the application in the Register of the Authority at the Headquarters. The Board decision regarding the application shall be notified to the licensee in writing. In case an affirmative decision is reached regarding the application, receipt proving that license renewal fee has been deposited shall be required to be submitted to the Authority within thirty days. New license shall be issued to the legal entity in question, upon fulfillment of its obligations, as per the above said Board decision.

In cases where the licensee, the term of the license of which expires is a distribution company; if the licensee requests from the Authority the renewal of its city distribution license one year prior to the expiry of its term, the Board may grant a distribution license for the second time, taking into account the economic and technical strength of the company, quality of service, non-eligible customer satisfaction and other issues set forth in the applicable legislation, within the framework of paragraphs (a), (b), (c) and (d). If the term of the license of the licensee is not extended due to the above stated reasons, the Authority shall conduct a tender for the city in question, in accordance with the principles and procedures set forth in the Distribution and Customer Services Regulation and grant the license to the legal entity which submits the most responsive bid.

Commercial title of the licensee the license of which is renewed and the type of the license that is renewed shall be published in the Official Gazette and announced in the Authority's website.

Termination of licenses

Article 16 — The licenses shall automatically terminate if the license holder is declared bankrupt or at the end of their terms unless extended. The cancellation of licenses upon the request of the licensees shall be subject to the approval of the Board.

The licenses of the legal entities shall include provisions stating that if the audits and audit reports to be prepared by also considering the defense of the related licensee, obtained as per the applicable legislation reveal that the financial status of the licensee subject tariff regulation has been deteriorated in a manner that may endanger secure operation of its licensed activities and/or fulfillment of its financial obligations, the Authority shall take necessary measures to prevent any damage on consumers and market conditions within the framework of the Board decision to be taken. In case the licensee intends to quit performing its licensed activity, the licensee shall file a written application with the Authority at least one hundred and eighty days before the date on which it requests to cancel its license and the application shall also include the reasons for its intention to cancel its license. The licensee shall also indicate its liabilities as of the license termination date and the measures envisaged for fulfillment of such liabilities. The Authority may ask the licensee to submit any additional information and document that the Board needs for its decision regarding the license termination request.

If the license termination application is approved by a Board decision, as a result of the relevant assessment, the license shall be cancelled as of the date stated in the Board decision.

In case a distribution licensee intends to terminate its license before the expiry of its term, the license of such distribution licensee shall not be terminated until a new legal entity obtains a license to perform the activity under the referred license.

Cancellation of licenses

Article 17 — The licenses may be cancelled within the framework of the provisions of Article 9 of the Law. In case of cancellation of any license, the Board shall take necessary measures to prevent interruption of services until a license is issued.

In relation to cases where it becomes mandatory to cancel a distribution license, the following provisions stating that the distribution licensee shall accept the following shall be included in the articles of association of the distribution licensee;

a) some or all members of the board of directors of the licensee and/or its managers, or, should the licensee not be a joint stock company, some or all members of its board of shareholders and/or its managers may be temporarily replaced by means of appointments by the Authority, by a Board decision to be issued prior to cancellation of the license, to ensure the continuation of the licensed activities and operation of the distribution network, in order to protect the consumers and prevent any interruption in the services;

b) the Authority shall launch a tender for the sale of the network in question and determining the new licensee, on behalf and at the cost of the licensee whose license is subject to cancellation, within one hundred and twenty days and during this process, the sales price payable by the new licensee and the principles and procedures pertaining to the tender shall be determined by the Board.

PART TWO

Provisions pertaining to Licenses

SECTION ONE

General Principles

Article 18 — The following general principles shall be included in the licenses, depending on the license types:

- 1) Provisions setting forth the groups or categories of real persons or legal entities to receive services and activities to be performed within the scope of the license,
- 2) Provisions stating that a distribution or transmission licensee shall provide opportunities for access to and use of system in a non-discriminatory manner,
- 3) Provisions pertaining to the methods for determination of pricing principles set forth in the Law, determination of pricing principles applicable to natural gas sales to non-eligible consumers, taking into account the requirements of the market, and application of the formulae for inflation adjustments and auditing of the same,
- 4) Provisions to ensure that the licensee provides full and correct information to the Board and, with respect to sales to non-eligible consumers, that the distribution licensee purchases natural gas from the most economical source and, when necessary, proves that the purchases are from the most economical source,
- 5) Provisions covering principles pertaining to implementation of the measures to minimize system losses and the rules pertaining to reflection of the costs of service, as per the Regulation,
- 6) Provisions about cancellation, termination and renewal of the license,
- 7) Provisions about modification of the license,
- 8) Provisions about the amounts payable to the Authority by the licensee and the payment conditions,
- 9) Provisions about the conditions in case of which the facility and/or facilities owned or operated by the licensee shall be operated by a third person for the purposes of the license, when required,

- 10) Provisions pertaining to the obligation of the licensee to comply with all instructions of the Board,
- 11) Provisions pertaining to the activities that may be conducted, within the scope of the license, without prior approval of the Board,
- 12) Provisions stating which disputes related to the activities within the scope of the license shall be settled by the Board,
- 13) Provisions pertaining to durations, conditions and cases where the rights and obligations set forth in the license shall become invalid,
- 14) Provisions to ensure that the services are performed in compliance with the technical requirements,
- 15) Provisions pertaining to the facilities within the scope of the license,
- 16) License term,
- 17) Other provisions deemed appropriate by the Board to be incorporated into the licenses.

SECTION TWO

Import License

Rights and obligation of the import licensees

Article 19 — Import companies shall conduct the activity of import of natural gas, in LNG or gaseous form, for the purpose of selling it to wholesale companies, eligible consumers or export companies or directly exporting it. Import companies shall be obligated to obtain a separate license for each import arrangement they enter into. Import companies may purchase natural gas from production companies, wholesale companies and import companies.

Import companies may transfer, by means of sales contracts, the natural gas they import or obtain by local purchase to the wholesale companies, export companies, distribution companies, CNG distribution, transmission and sales companies and to eligible consumers and in Turkey, or, on the condition that they obtain export licenses, export it. However, any such transfer to export companies shall not eliminate the commitments of the import company within the scope of its license.

The annual quantity of natural gas which any import company has imported under one or more import licenses shall not exceed twenty percent of the total estimated national consumption in that calendar year as determined and announced by the Authority in the month of January every year.

The sales of an import company under one or more import license may not exceed twenty percent of the forecast natural gas consumption amount announced by the Authority for the current year, in the month of January each year. Such ratio shall be calculated by deducting the quantity of natural gas, which the company consumes directly or through its subsidiaries, from the net national consumption remaining after deduction of losses.

Import companies which have submitted with their applications any preliminary contract or statement showing that they will provide, within five years, the storage capacity to store locally ten percent of the quantity of natural gas to be imported in each calendar year shall be obligated to submit to the Authority the lease contracts entered into for this purpose with licensed storage companies.

Import companies shall inform the Authority of the changes in issues stated in item (v) of paragraph (a) of article 12 of Annex 3 and of the obligations set forth in their import contracts and related to system security. Import companies shall submit the Authority all information and documents pertaining to their import contracts, as may be requested by the Authority.

In cases where an import company is selling natural gas to distribution companies and where the storage capacity provided as per provisions of paragraph five is inadequate, the relevant

import company shall be given a time of five years as of the date the license is issued to take the necessary measures related to storage. If the storage facilities in the country at the end of such period are still inadequate, such period may be extended by up to two years by a Board decision. In cases where an import company is selling natural gas to eligible consumers and where the storage capacity provided as per the provisions of paragraph five is inadequate, the relevant import company shall be given a time of five years as of the date the license is issued, to take the necessary measures related to storage. If storage facilities in the country at the end of such period are still inadequate, such period may be extended by a Board decision.

Issuance of import licenses to wholesale companies

Article 20 — Wholesale companies shall meet all the conditions and obtain an import license in order to import natural gas. If the application for an import license is accepted by the Board, then an import license shall be issued. Wholesale license of the import license applicant shall be converted into an import license following the application of the licensee to give up its wholesale license and the approval of the Board of such request. The licensing fee for the import license shall be deposited in the Authority's account. However, but the licensing fee paid for the wholesale license shall not be refunded.

SECTION THREE

Transmission License

Rights and obligations of transmission licensees

Article 21 — Transmission licensee shall be responsible for his own part regarding performance of arrangements and all other services required for ensuring natural gas flow and operation of the system. In addition, the licensee shall be obligated to take all measures to ensure transmission of natural gas through the lines under his responsibility in a secure, effective and cost-efficient manner and take all other actions stipulated in the applicable legislation.

Transmission licensee shall be responsible for planning, designing, construction and operation of the transmission system under his responsibility, in accordance with the principles, procedures and standards set forth in the legislation.

Transmission licensee shall, to the extent the system is available, connect any user, who wishes to be connected to the system, at the most convenient point on the network within twelve months, in accordance with the criteria defined by the Authority.

Where any request for access to the system is rejected by the licensee, the user may inform the Authority thereof. If the Authority determines that the licensee has violated the network code, then the licensee shall connect the user to the system pursuant to the decision of the Board. The licensee shall respond to any application for accession to the system within thirty days. Where any such application is rejected, the applicant shall be notified of the reasons for rejection. Where any applicant, whose request has been rejected, applies to the Authority within sixty days, the Board shall reach a decision within three months and advise the parties thereof. With respect to such decision, the Board shall pay due regard to ensure that transmission service is not interrupted and operation of the system is not adversely affected. In case of non-compliance with such decisions of the Board, the provisions of article 9 of the Law shall be applied.

Transmission licensee shall substantiate to the Authority that it is carrying out a cost-efficient, effective and reliable operation.

Those engaged in international transport of LNG are not obligated to obtain licenses. Any licensee, who has obtained a license to transport LNG only on Turkish territorial waters and

territory are exempt from the obligations referred to above. The obligations of such licensees shall be set forth in the applicable legislation.

Preparation and approval of investment programs

Article 22 — Transmission companies shall also take into consideration the transit natural gas transmission in their investments. For that purpose, investment programs shall be submitted to the Authority for approval by 15 August. The Board shall review such national transmission network investment programs prepared by the licensee by also taking into consideration the transit natural gas transmission, within two months, and shall either approve the program or inform its recommendations to the Transmission Company. The Transmission Company shall take the Authority's recommendations regarding the investment program into consideration and resubmit the investment program, revised in line with the Authority's recommendations, to the Board. After approval of an investment program the Transmission Company's license shall be amended, if required, based on the approved investment program. Any investment program, which is not approved by the Authority, shall not be executed.

SECTION FOUR

Storage License

Rights and obligations of storage licensees

Article 23 — The licensee shall be responsible for planning, designing, construction and operation of the underground and on-ground storage facilities and LNG facilities, in accordance with the principles, procedures and standards set forth in the applicable legislation and other legislation.

A request of any user for access to the system shall not be rejected in the event that the applicant undertakes to incur the necessary costs in order to eliminate lack of capacity, if there is any such lack and if it is physically possible to increase capacity.

Where any application is rejected by the licensee and the user informs the Authority thereof, and if the Authority determines, after conducting necessary review and inspection, that the licensee has violated the applicable principles and procedures and the license conditions, then the Authority may oblige the storage company to provide the requested service. Sanctions defined in the Law shall be imposed in the event of such violation.

The storage companies shall respond to any application filed by suppliers for receiving storage services within thirty days. Where any such request is rejected, the applicant shall be notified of the reasons for the rejection. Where any supplier, whose request is rejected, applies to the Authority within sixty days, the decision to be made by the Board within three months from the date of such application shall be final and binding on the parties.

Connection of the storage facilities to transmission or distribution systems shall be made as per the connection agreements to be entered into by and between the parties.

The licensee shall be responsible for operation, maintenance, reliability and balancing of the system it owns and for ensuring security of natural gas supply.

A separate license shall be obtained for each of all storage facilities which are not connected directly with one another and are located in places that are not physically integrated. Licenses shall be modified in case of capacity increases in the existing storage facilities.

Licensee shall substantiate to the Authority that it is carrying out a cost-efficient, effective and reliable operation.

Performance of storage activities by production companies

Article 24 — Where any company holding an operating permission under the Law No. 6326 applies to the Authority for using an underground natural gas reserve for storage purposes after obtaining an approval from the General Directorate for Petroleum Affairs, the related section of the operating permission shall be converted into a storage license subject to the Board's approval. However, the production company shall document in its application to the Authority that it has the necessary qualifications for obtaining a storage license. If the company starts performing storage activities, it shall carry out those activities separately from the production operations and keep separate accounts for each activity.

SECTION FIVE

Wholesale License

Rights and obligations of wholesale licensees

Article 25 — Wholesale licensee may purchase natural gas from production companies, import companies and wholesale companies.

Wholesale licensee may sell natural gas so purchased to export companies, eligible customers, CNG distribution, transmission and sales companies, import companies, distribution companies and wholesale companies throughout the country.

No wholesale company may sell natural gas in quantities higher than twenty percent of the estimated annual national consumption as determined and announced by the Authority for the current year, in the month of January every year. Such ratio shall be calculated by deducting the quantity of natural gas, which the company consumes directly or through its subsidiaries, from the net national consumption remaining after deduction of losses.

Those wholesale companies which have presented preliminary contracts or commitments, at license application, showing that the applicant shall provide for storage capacity within Turkey, shall submit lease contracts concluded with storage companies holding licenses in order to fulfill this obligation. If, however, he sells natural gas to distribution companies, the licensee shall be granted a five year period from the effective date of the license in order to provide the required storage capacity. Where the capacity of storage facilities has not reached the necessary level in Turkey, such period may be extended by up to two years by virtue of a decision made by the Board. Although provision of storage capacity within five year from the date of the license is compulsory in respect of natural gas to be sold to eligible consumers, this period may be extended for a period designated by the Board.

Performance of wholesale activity by production companies

Article 26 — Natural gas exploration and production operations shall be carried out in accordance with the Petroleum Law No. 6326. Exploration and operating licenses shall be issued by the General Directorate for Petroleum Affairs. Production is not a market activity.

Production companies may sell natural gas they produce to wholesale companies, import companies, export companies, distribution companies or eligible consumers provided that they obtain a wholesale license for that purpose. Production companies may sell a part of such natural gas directly to eligible consumers provided that the total quantity sold to eligible customers does not exceed twenty percent of the estimated national consumption to be determined by the Authority for the current year and sell the remaining quantity in the market through import companies, distribution companies or wholesale companies. Production companies may export natural gas they produce on the condition that they obtain an export license for that purpose.

Production companies shall meet the related requirements in order to obtain a wholesale license or an export license.

Natural gas produced shall be transmitted under transportation and delivery contracts to be entered into with transmission companies. If the production center is far from the connected system, then the natural gas may be transmitted via a direct line without requiring the company to establish a connected system and sold by the production company to eligible consumers. However, this will be subject to a decision to be made by the Board by taking economic and technical conditions into account. If the quantity of natural gas produced by a production company is less than the quantity defined in item (1) of paragraph (a) of Article 8 of the Law, then such production company may sell such natural gas to other consumers without carrying out city distribution activity. Production companies shall reserve their rights on existing transmission and storage facilities. The exercise of such rights shall be subject to the provisions set forth in paragraphs (c) and (d) of Article 4 of the Law.

Production companies shall be obligated to comply with regulations issued by the Authority in respect of issues such as tariffs, delivery conditions, gas quality, gas supply and seasonal fluctuations.

SECTION SIX

Distribution License

Issuance of distribution license

Article 27 — Notwithstanding the provisions of the temporary articles of the Law, companies, which will be entitled to receive city natural gas distribution licenses, shall be selected through tenders to be conducted by the Authority.

Principles and procedures related to distribution licenses and such tenders shall be set forth in the Distribution and Customer Services Regulation and in other relevant regulations and communiqués. A distribution license shall be granted to the company entitled to receive the license upon completion of the procedures defined in the relevant regulations and the tender file.

Rights and obligations of distribution licensees

Article 28 — Distribution companies shall be responsible for planning, designing, construction, expansion and operation of the distribution network in accordance with the principles, procedures and standards set forth in the legislation.

Distribution companies shall ensure that the non-eligible and eligible consumers in their respective areas access the distribution network in accordance with the principles and procedures set forth in the relevant regulations and communiqués issued by the Authority and provide services related to sale and delivery of natural gas to such consumers.

Distribution companies shall, if requested by the consumers in the areas under their responsibility, connect such consumers to the system. However, the obligation to connect such consumers to the system shall depend on availability of capacity of the system and shall be subject to completion by the consumer of actions set forth in the Distribution and Customer Services Regulation and shall be based on technical and economic feasibility of such connection in accordance with the principles and procedures set forth in the applicable legislation. In the event of a dispute in that regard, the Board shall decide whether the proposed connection is technically and economically feasible. Any user, whose request for connection is rejected, shall inform the Authority thereof. If the Board, after receiving the relevant distribution company's defense in respect of the dispute, concludes that the provisions of this Article have been violated, then the company shall comply with the decision made by the Board.

Any legal entity, which has received a distribution license, may sell the distribution network in its possession to another legal entity prior to expiry of its license, in accordance with the principles and procedures set forth in the Distribution and Customer Services Regulation. Such sale shall be subject to the approval of the Board.

Distribution companies shall offer natural gas transportation and ancillary services to eligible consumers and suppliers selected by such consumers, upon their request.

Distribution licensee shall perform scheduling and system balancing in order to ensure system reliability and to meet demands of users fed from the city distribution network and ensure natural gas supply security.

Distribution companies shall establish a dispatch control center for distribution networks under their responsibility. However, this condition shall not be applicable in respect of cities where consumption capacity is deemed insufficient by the Authority.

Distribution companies shall issue certificates to real persons and legal entities in respect of internal installations and service lines under the authorization they will obtain from the Authority in accordance with the applicable legislation. They shall carry out financial and technical audits of such real persons and legal entities which have been issued such certificates.

Distribution companies shall submit to the Authority information and documents substantiating that natural gas supplied to non-eligible consumers has been purchased from the most economical source.

The licensee may purchase maximum fifty percent of natural gas it will distribute within a calendar year from the same legal entity, unless otherwise decided by the Board.

The licensee shall not add any substance to the natural gas delivered to the distribution network, other than odorizing substance to be added for safety purposes.

The licensee shall substantiate to the Authority that it is carrying out an effective and reliable operation.

Distribution companies shall provide all required information to non-eligible consumers, who have acquired the right to become eligible consumers according to eligible consumer limits to be determined by the Board on an annual basis, they may need for changing their suppliers.

The Authority shall guide, supervise and monitor distribution activities of distribution company, which owns the respective distribution system, and when required, shall purchase such services from real persons and legal entities at the distribution company's cost.

Each distribution company may hold licenses only for two cities within the country. However, this number may be increased by a Board decision, based on criteria such as the level of development of the cities, consumption level and the number of users. The Board may divide a city into more than one distribution area depending on population density and may conduct a separate tender for each area.

Other rights and obligations of the licensees selected through a tender process shall be specified in their licenses by taking into consideration the tender file and their proposals.

SECTION SEVEN

Compressed Natural Gas (CNG) License

Rights and obligations of CNG licensees

Article 29 — Any legal entity, which shall engage in purchase of natural gas at wellhead, from national transmission network or from city distribution system and,

- a) its compression, filling in pressurized containers and sale;
- b) transmission of compressed natural gas by means of special vehicles between cities;
- c) its sale by reducing its pressure at places which the transmission network does not reach;

shall obtain a CNG license with a separate content for each of the above mentioned activities from the Board.

CNG licensees, based on the content of their respective licenses, may, throughout the country, perform the activities of compressing, filling into pressurized containers and selling of natural gas, transportation of compressed natural gas filled in pressurized containers by means of special vehicles between cities and selling of compressed natural gas by reducing its pressure at places where the transmission or distribution network does not reach.

CNG licensee shall be responsible for planning, designing, construction, procurement and operation of CNG filling, loading and unloading facilities in accordance with the principles, procedures and standards set forth in the legislation.

Activities performed by CNG licensees at CNG facilities shall not be deemed to be storage activity.

SECTION EIGHT

Export License

Rights and obligations of export licensees

Article 30 — Export companies may purchase natural gas from production companies, wholesale companies or import companies.

Production companies and import companies may perform export activity as per the provisions of item (f) of paragraph (4) of article 4 of the Law, provided that they obtain export licenses.

PART THREE

Other Provisions

SECTION ONE

Other Obligations, Non-discrimination ve Access to System

Other obligations of the licensees

Article 31 — Other rights and obligations of the licensees, in addition to those set forth in the applicable legislation, are as follows:

- a) If any dispute related to access to the system is referred to the Authority, the parties shall comply with the decisions of the Board.
- b) Licensees may not create an encumbrance, mortgage or pledge on transmission, distribution and storage facilities without the Authority's approval.
- c) Licensees may not make any changes related to their market activity as defined in their articles of association without the Authority's approval.
- d) If the authorized representatives named in the application form are replaced, then the licensee shall furnish the Authority with certificates of authorization, approved by the notary and the list of authorized signatories within ten days.
- e) Any licensee, which provides storage and transmission services, may request the system users to provide natural gas in a quantity to be used for maintaining minimum stock and operation of the transmission and storage facilities. System users shall provide such natural gas requested in a minimum quantity determined by reference to the quantity of natural gas they deliver to the system against payment of its price.
- f) Licensees may not engage in any activity outside the market, other than those stated in their respective licenses as activities that may be carried out without prior approval of the Board. In issuing such approval, the Board takes into consideration the type of the license requested, the

nature of the non-market activity and its relation with the energy market. Legal entities shall be obligated to keep separate accounts for each activity stated in their respective licenses and cross subsidy shall be prohibited.

g) Legal entities may engage in more than one market activity upon obtaining a separate license for each market activity and for each facility where such activities shall be carried out. However, legal entities engaged in natural gas wholesale activity may not perform transmission nor distribution activities.

h) Provisions related to freedom of competition, prevention of abuse of dominant position and mergers and acquisitions as set forth in the Law No. 4054 dated 7.12.1994 on Protection of Competition shall also be applicable to legal entities engaged in the natural gas market activities.

i) Licensees shall carry out market activities as reasonable and prudent merchants.

k) With the exception of expiry of a distribution, transmission or storage license at the end of its term, the Authority shall take all measures related to the facilities in order to prevent any interruption in operation of the system until the new licensee starts its operations. All related costs and revenues shall be assumed by the former licensee.

l) In case of expiry, termination or cancellation of a license; the relevant licensee shall return the license to the Authority within fifteen days as of the date of expiry of the license or receipt of a notice of cancellation. Commercial titles of the legal entities, whose licenses have expired or been cancelled and the types of the licenses in question shall be published in the Official Gazette and announced on the Authority's website.

m) Legal entities which obtain licenses from the Authority shall be obligated to comply with applicable legislation and, based on the types of their activities, other legislation.

Non-discrimination

Article 32 — In provision of services, distribution, transmission and storage licensees shall not discriminate between users, favor any one user against another, or act in any manner that would violate free competition conditions. For this purpose, licensees shall be obligated to comply with the following rules as applicable as per the type of their licenses:

a) Notwithstanding the provisions of article 38, licensees shall inform all system users simultaneously of any information that is required to be disclosed;

b) Licensees shall not provide system users or those who wish to use the system incorrect or misleading information regarding the capacity in use and accessible capacity.

c) Licensees shall not provide wrong or misleading information about gas supply increase, interruption or reduction programs for balancing purposes and about their implementation results.

d) Licensees shall not discriminate between the users with regard to capacity transfers and capacity allocations.

e) Licensees shall not discriminate in the transactions involving gas lending and gas retention.

f) They shall not direct their eligible consumers to any licensee.

Access to the system

Article 33 — The legal entities engaged in transmission, distribution or storage activities may reject applications by other legal entities and eligible consumers for access to their system only in cases where they do not have adequate capacity or where they will no longer be able to fulfill their obligations in case of such users' access to their system, or where they may be exposed to serious compensations because of their existing contracts if these entities have access to the system.

In case a request for access to the system is rejected on grounds of serious economic hardship arising out of the insufficient capacity, service obligations or existing contracts, the Authority shall immediately be informed thereof along with justifications.

The Board shall investigate whether there is insufficient capacity or unavailability of connection or any other obstacle in accordance with the criteria set forth in the applicable legislation and notify its decision to the parties within three months.

In case the user requesting for access to the system accepts to meet the costs necessary for the purpose of eliminating the insufficiency of capacity or unavailability connection, access to the system shall not be rejected.

In case access to the system is rejected because of serious economic and financial hardship arising from the provisions of the existing contracts of the legal entities involved in market activities, the transmission company may request from the Board, to cancel temporarily the provision of system access obligation upon application by the other legal entity in difficulty to the Authority due to the contract it has executed and such transmission company submits to the Board the measures it has planned for the resolution of the problem together with the necessary information to the Board. The Board shall reach a decision on the application within two months.

However, in case the request with respect to the temporary immunity of the provision of system access obligation is rejected by the Board, the transmission company must connect such real person or legal entity to the system.

SECTION TWO

Insurance, Separation of Accounts and Prohibition of Cross Subsidy

Obligation to provide insurance coverage

Article 34 — Licensees shall be obligated to provide insurance coverage for the assets associated with the activities they carry out against possible risks based on the type of respective activities.

Within this framework, transmission, distribution, CNG and storage licensees shall insure their facilities through an “all risks” coverage against natural disasters, fires and accidents etc.

Separation of accounts and prohibition of cross subsidy

Article 35 — The licensees engaged in more than one market activity or licensees carrying out the same licensed activity at more than one facility shall keep separate accounts and records for each activity or each facility subject to license and shall not make cross-subsidies between these accounts. Distribution companies shall keep separate accounts for sales to eligible consumers, sales to non-eligible consumer and the transportation service provided to system users and shall not make cross-subsidies between these accounts.

SECTION THREE

Notices, Information Sharing and Scope, Confidentiality Settlement of Disputes, Reporting, Sanctions and Audit

Notices

Article 36 — All notices to be made between the licensees and the Authority as per the provisions of this Regulation shall be governed by the provisions of the Notification Law no. 7201.

In case of a change in the address of notification, the licensee shall inform the Authority, through notary, of the change in the address within three days prior to such change. In cases

where the licensee fails to make this notice within the said period, notices served by the Authority to the former address will be deemed effective.

Information sharing and scope

Article 37 — Legal entities engaged in natural gas market activities shall be obligated to provide information on issues related to the activities they perform. The scope of information to be provided and the parties to provide such information shall be as follows.

- a) Transmission companies performing natural gas transmission and dispatch activities, storage companies operating LNG facilities and underground storage facilities, distribution companies engaged in city distribution activity and production companies, import companies and wholesale companies supplying natural gas shall be obligated to provide adequate and correct information to other companies performing the same activities as themselves, to ensure secure and efficient operation of the natural gas system.
- b) Licensees purchasing services from distribution, transmission and storage companies shall be obligated to provide adequate and correct information to transmission, distribution and storage companies to ensure secure and efficient operation of the natural gas system.
- c) Transmission licensees shall be obligated to provide one another with the required information to be determined by the Authority, to ensure secure, efficient and synchronous operation of their systems.

Confidentiality

Article 38 — The Authority may not disclose any information or document, deemed to be commercially sensitive by a Board decision, except for cases when requested by a court order. Parties engaged in natural gas market activities shall be obligated to keep commercially sensitive information and documents confidential. However, they shall not be liable in relation to information or documents they shall disclose to the relevant people in case of audits or investigations conducted by the Competition Authority or the Authority. Licensees shall not use any confidential information they have acquired directly during gas purchases and sales or through the parties inspecting or being inspected or affiliated legal entities for their own interests or for the interests of its subsidiaries or for or against the interest of others in whatsoever manner. Such information shall be made available to the Authority only upon request by the Authority.

A legal entity whose license has expired or has been cancelled shall keep commercially sensitive information of other related entities confidential for five years.

Settlement of disputes

Article 39 — Any dispute arising between legal entities or between legal entities and consumers in relation to the implementation of the Law shall be settled by the Authority.

It shall be stated in the licenses that the decisions regarding disputes, which shall be issued by the Board within thirty days shall be final and binding on the parties.

Any lawsuit against Board decisions shall be filed with the Council of State as the court of first instance. The Council of State shall consider such applications as urgent matters.

Reporting

Article 40 — The licensees shall be obliged to prepare annual activity reports for the previous year in compliance with the applicable legislation and submit such reports to the Authority by the end of April every year.

Legal entities holding licenses shall be obligated to make their facilities, legal books and records available for inspection by the Authority, submit them for inspection if so requested by the Authority, maintain the records and reports determined by the Authority and provide all kind of information and documents to the Board in a timely manner for the Authority to be able to perform its functions.

Sanctions and audit

Article 41 — The Authority may audit, or have third parties audit on behalf of the Authority, all works and transactions of the licensees, pertaining to the activities within the scope of their respective licenses. If the licensee acts in violation of the applicable legislation within the framework of the regulations issued by the Board regarding the sanctions and audits, the sanctions indicated in Article 9 of the Law shall be applicable with due regard to the characteristics of the violation.

The fines shall be applied separately to each of the parties violating the provisions of the Law. In cases where the actions requiring imposition of fines as per the Law are deemed as crimes as per Turkish Penal Code or other codes including sentence provisions, this shall not form an prevent the imposition of the these fines and the cancellation of licenses. In cases where the actions requiring fine imposition are more than one, if there is any relation between these violations, the fine related to the violation requiring the highest fine shall be imposed; and if there is no relation between them, each of the fines shall be imposed separately.

SECTION FOUR

Transfer of Shares, Mergers, Market Share Limitations and Indirect Ownership

Transfer of shares

Article 42 — The direct or indirect acquisition, by a real person ore legal entity, of shares that amount to more than ten percent of the capital of a licensee (five percent for publicly traded companies), and share acquisitions that result in the increase in a partner’s shares to above ten percent of the licensee’s capital or a transfer of shares that leads to the fall of a partner’s share to below the above-mentioned rate, are subject to Board approval. This provision is also applicable for acquisition of right to vote and pledging the shares.

Board approval shall be given on condition that the real or legal entity to whom the share has been transferred, has the necessary qualifications required for the legal entity’s partners during the license application. That provision of this article shall be applied to the real person’s partner or partners in case the management and audit of the capital shares of the partner belong to another legal entity.

Even if there is no transfer of shares, allocation of the privilege on existing shares, termination of a privilege and issuance of a dividend right certificate are subject to Board approval regardless of the ratios stated in the first paragraph.

During the application of a real person or legal entity holding directly or indirectly, ten percent or more (five percent for publicly traded companies) of the capital of a licensee, or even if it is below that ratio, has the shares providing the privilege of appointing members for the Management or Audit Boards, or those who have acquired usufruct on these shares, are required to have the necessary qualifications required for the legal entity’s partners while applying for a license.

In the implementation of this article;

a) The shares and other rights of a real person who is a partner of a licensee or of his/her spouse or children who are minors and of those companies that the above persons are in the Management and Audit Board or are partners with unlimited liability.

b) The shares and other rights of the partnerships where twenty five percent or more of the capital belongs directly or indirectly to a legal entity or those that are indicated in paragraph (a), excluding public legal entities,

shall be viewed as belonging to one person.

For the applications of share transfer the following information and document shall be demanded;

a) In case the entity that the shares are transferred to is a legal entity;

1) The copy of the registration document proving that the legal entity has been registered in the commercial records and the copy of the Commercial Record Gazette in which the registration is announced,

2) The main charters of the partners,

3) A copy of the share transfer agreement,

4) The information and documents indicated in the 10th line of Annex 3 showing the financial status of the legal person and partners,

5) The names and addresses of the real persons holding ten percent or more of the legal entity shares directly or indirectly and their criminal records issued within last six months proving that they have not been charged with the offences indicated in line 5 of Annex 3.

6) In case the capital shares determining the management or audit of the legal entity are possessed by another legal entity, the information and documents regarding the partnership structure, including real person partner or partners.

b) In case the entity that the shares are transferred to is a real person;

1) A copy of the share transfer agreement,

2) Information and documents showing the financial status of the real person,

3) Criminal records of the real person issued within last six months proving that he/she has not been charged with the offences indicated in line 5 of Annex 3,

4) A declaration showing that the real person does not directly or indirectly hold ten percent or more of the shares of a legal entity whose licence has been cancelled in accordance with the provisions of the law.

The obligations set forth in this article shall be included in the related licenses and main charters of the licensees.

The Authority may request additional information and documents that can be required during review and evaluation necessary for Board approval, from the real persons or legal entities who are the parties in the share transfer.

Provisions of this article shall be applied comparatively for the citizens of a foreign country.

Mergers of legal entities

Article 43- In cases where a single legal entity wishes to take over all assets and liabilities of one or more licensee as a whole, Board approval for such a merger shall be obligatory.

If the merger is approved by the Board, such approval shall be announced on the website of the Authority. If the merger is not completed within a hundred days following the permission date, that permission shall be invalid. In such cases, continuation of the merger procedures shall be subject to a new Board decision.

The merger agreements may not include provisions that violate rights and receivables of consumers or eliminate the obligations of the licensee. Any merger agreement shall, at the minimum, contain the following provisions:

- a) the stages proposed for the merger,
- b) the indication of which legal entity's or entities' legal presence shall cease after the merger,
- c) the commitment that if the capital of the licensee after the merger is lower than the minimum capital obligations indicated herein, that licensee shall pay the difference within a hundred days following the completion of the merger,
- d) indicating that the licensee to whom the assets and liabilities are to be transferred is the only successor of other legal entity or entities in the merger in terms of any and all respects.

The application to the Authority for merger permission should include the following information and documents:

- a) merger agreement,
- b) copies of the decisions regarding the draft merger agreement,
- c) draft of the main charter of the licensee to whom the assets and liabilities are to be transferred after the merger,
- d) a report including the evaluation of the objectives of the merger.

The obligations indicated in this article shall be included in the main charters and related licenses of the licensees.

Limitations regarding Market Share and Indirect Ownership of Shared

Article 44- The licensees shall be obliged to perform their market activities within the framework of the market share limitations as indicated in the applicable legislation. In case of it is determined that the market share limitations indicated in the applicable legislation have been exceeded, the provisions of Article 9 of the Law shall be applied.

If, within the scope of non-recourse project financing provided to a licensee, the establishment of control and/or affiliate relationship between the banks and/or financial institutions and the legal entity due to loan agreement provisions covering cases such as a default in payments, leads to a violation of the market share limitations imposed by the applicable regulation, the Board allows a one year period to those banks and financial institutions to correct this violation. That term can be extended by Board decision.

Excluding public sector legal entities, the following principles shall be applicable for determination of indirect ownership of the capital of any real person or legal entity, and of any legal entity holding a license or has applied for one:

a) The legal entities holding a share in the capital of a licensee and, if any, the structure of those legal entities' partnerships shall be determined downwards, if necessary including the real persons.

b) In the capital of a legal entity holding a license, the proportion of the indirect ownership, which is formed by means of its partners, is calculated by multiplying participation ratios. In case the same real person or legal entity has a direct participation to the legal entities placed in the medium level, the above mentioned direct participation rate, before the pursuant multiplication, shall be added to the rate obtained up to that level

c) When determining the indirect ownership belonging to a real person, the shares of those real persons and that of their spouses and children, the partnerships they have with unlimited responsibility or the partnerships the capital and management of which is controlled separately or together by that person or his partners is taken into account. In determining the indirect ownership belonging to the legal entities, the shares belonging to those and the shares belonging to the partnerships the capital or management of which is controlled by those, are calculated together

The determination and evaluation of indirectness such as indirect transfer of ownership that shall be performed regarding the capitals of legal entities that have a share in the capital of a legal entity holding a license, unless stipulated otherwise by the applicable legislation, is performed in compliance with the provisions of the third article on the basis of legal entity share holder's capital instead of the capital of legal entity holding a license.

A legal entity engaged in a natural gas market activity may enter into affiliate relationship with only one other legal entity engaged in any of the different market activities. However such legal entity may not set up a separate company. A legal entity may not enter into affiliate relationship with any other legal entity engaged in the same market activity as itself and it may not set up a new company in the same field of activity. However, a legal entity

Receiving Board Opinion and Governance

Article 45. The legal entities may apply to the Authority in order to obtain the Board opinion regarding the clarification of any issues or elimination of differences in the interpretation during the implementation of the applicable legislation.

In case more than one legal entity apply to the Authority regarding the same or similar subjects, the necessary procedures shall be completed within the framework of the Board decision to be taken regarding the evaluation report prepared through obtaining the opinions of related legal entities operating in the market.

Regarding the regulations to be made in order to ensure more efficient operation of the market, the Authority shall prepare a governance report through obtaining the opinions and evaluations of related legal entities operating in the market. The governance report shall be publicized on the website of the Authority for thirty days. The opinions received during this period from the legal entities regarding the governance report shall also be publicized on the website of the Authority. The governance report shall be finalized with due regard to the opinions and recommendation of the legal entities and shall be submitted to the Board within ten working days following the completion of such period. The related procedures shall be completed within the framework of the Board decision regarding the governance report.

Force Majeure

Article 46. In order for an event to be considered force majeure, the event has to have been beyond reasonable control of the party affected by it and its effects could not reasonably have been foreseen or if foreseeable, could not reasonably have been averted and, it prevents that party from complying with relevant obligations.

In case of force majeure conditions, the liabilities of the licensees arising from the applicable legislation may be postponed by a Board decision until the effects of force majeure conditions are eliminated. In cases where it is understood that it is impossible to fulfill such obligations, the Board may also decide that the relevant obligations of the licensee be eliminated. In order to be granted postponing or elimination of obligations by a Board decision, the licensees have to file an application with the Authority within fifteen days following the start of such force majeure conditions. The application shall indicate the reason, starting date, content, the effects on the licensed activities and if possible, estimated time for elimination of such force majeure conditions. It is not possible to request the elimination of the obligations regarding transmission and distribution activities.

Article 47 **Minimum Capital requirement**

The minimum capital amount stated in Annex 4 shall be increased by the rate determined and announcement for the current year under the Task Law. Such requirement shall be applicable as of the beginning of each calendar year.

Temporary Article 1

Fees related to licenses which will be valid in the year 2002 will be determined by the board, published in the Official Gazette and announcement on EMRA web site by September 2002.

Effectiveness

Article 48. This Regulation shall be effective on the date of its publication.

Enforcement

Article 49. This Regulation shall be enforced by the President.

**ANNEX 1
LICENSE APPLICATION FORM**

**REPUBLIC OF TURKEY
ENERGY MARKET REGULATORY AUTHORITY**

We are requesting to obtain the relevant license in order to engage in the activity of natural gas (Transmission / Import / Wholesale / Storage / Distribution in / CNG distribution, transmission and sale / Export), to be in effect for years.

We kindly request that our application be accepted and the relevant license be granted to our legal entity.

Encl: (The Commitment in Annex 2 and the documents indicated in Annex 3 to be enclosed.)

Name(s) of Authorized Representative(s) of the Legal Entity
Signature
Stamp
Date

Commercial Title of the Legal Entity:
Chamber of Trade and/or Industry Province:
Trade Registry Number:
Tax Office and Tax Number:

Official Address of the Legal Entity:
Telephone:
Facsimile:
e-mail:

ANNEX 2
COMMITMENT (*)

REPUBLIC OF TURKEY
ENERGY MARKET REGULATORY AUTHORITY

We hereby declare and accept that:

- 1) The information and documents submitted during our license application are complete and accurate;
- 2) We will comply with the provisions of the applicable legislation;
- 3) We will fulfill those obligation arising from other legislation, such as obtaining permits or approvals, that are related to the activity within the scope of the license we are requesting and that we shall be liable otherwise;
- 4) Our license application shall be considered invalid if we fail to deposit one percent of the licensing fee in the account of the Energy Market Regulatory Authority, within ten working days, upon acceptance thereof;
- 5) If our license application is rejected as a result of the examination and evaluation conducted by the Authority, the amount corresponding to one percent of the licensing fee that we have deposited will be registered as revenue by the Authority and that we will not be claiming any rights or indemnification whatsoever related thereto.

Name(s) of Authorized Representative(s) of the Legal Entity
Signature
Stamp
Date

(*) The applicant may not make any amendment to the content of this Commitment, under any condition whatsoever.

ANNEX 3

INFORMATION AND DOCUMENTS TO BE SUBMITTED BY LEGAL ENTITIES DURING LICENSE APPLICATION

- 1) Authorization certificates of authorized representatives of the legal entity;
- 2) Official address of the legal entity to be used for notifications;
- 3) One copy of the registration certificate indicating that the legal entity is registered to the Trade Register and one copy of the Turkish Trade Register Gazette containing the announcement of the registry;
- 4) Names and addresses of real persons or legal entities holding, directly or indirectly, ten percent (five percent, for companies listed in the stock exchange market) or more of the shares of the legal entity;
- 5) Criminal records issued within last six months proving that the real persons who are holding, directly or indirectly, ten percent or more of the shares of the legal entity have not been sentenced for infamous crimes, such as heavy imprisonment or imprisonment for more than five years, embezzlement, conspiracy, extortion, bribery, theft, swindling, forgery, fraudulent bankruptcy, breach of trust, except for negligent offences and that they have not been convicted of smuggling except from use and consumption, fraudulent acts in tenders and sale and purchases, tax fraudulence, money laundering and betrayal.
- 6) Articles of association of the legal entity and articles of association of its legal entity shareholders, if any;
- 7) Documents demonstrating the financial condition of the real person or legal entity shareholders holding, directly or indirectly, ten percent (five percent in companies listed in the stock exchange market) or more of the shares and the lists showing the share ratios and amounts of the shareholders and concessionaire shares, if any, in this context;
- 8) Declarations of real person shareholders holding, directly or indirectly, ten percent (five percent in companies listed in the stock exchange market) or more of the shares of the legal entity, that they are not holding, directly or indirectly, ten percent or more of the shares of any legal entity whose license had been cancelled under the provisions of the applicable legislation.
- 9) In cases where the capital shares determining the management or audit of the legal entity belong to another legal entity, all detailed information and documents relating to the partnership structure, down to real person shareholders;
- 10) Market experience of the legal entity, if any, in Turkey and abroad;
- 11) Information on the affiliates of the legal entity and their activities;
- 12) Information, documents and commitments on the following, depending on the type of activity:
 - a. For import license:
 - i. Accurate information on and guarantee with respect to the source, reserves, production facilities and transmission system of the natural gas to be imported, to ensure security of supply;
 - ii. Amounts of natural gas to be imported each year throughout the period during which the license in question shall be in effect and from whom such amounts will be purchased;

- iii. Rental contracts related to having access to sufficient storage capacity to store, in Turkey, annually 10% of the natural gas imported; or preliminary contracts with legal entities to be engaged in storage activity, or commitments by such legal entities, showing that such storage capacity will be ensured, in Turkey, within the next five years;
 - iv. Declaration stating that the legal entity has the capability contribute to the development and security of the national transmission system and that it will provide reasonable support, in proportion to its financial capability, to the investments of the legal entities which will provide for the development of the system;
 - v. Information and documents on the terms and time extensions stated in the import contracts they have or will be entering into; characteristics of the natural gas (chemical composition, gross calorific value, etc.) and annual and seasonal import amounts.
- b. For transmission license:
- i. Map to appropriate scale showing the locations and routes;
 - ii. Design and operating capacity;
 - iii. Design and maximum operating pressure;
 - iv. Metering, control and data collection systems;
 - v. Location and capacity of compressor stations;
 - vi. Telecommunication system;
- c. For storage license:
- i. Storage capacity;
 - ii. Injection and reproduction or unloading and send-out capacity;
 - iii. Storage, injection and reproduction or send-out pressure;
 - iv. Plan to appropriate scale showing the location of the storage facility;
 - v. Telecommunication system;
 - vi. Metering, control and data collection systems;
 - vii. Declaration that they will manage all of their storage capacity in a manner to support safe and coordinated operation of the system and that, to the extent the system is available, they will provide service on non-discriminatory basis;
- d. For wholesale license:
- i. Information and documents on where the natural gas is to be obtained from and under which transportation conditions it is to be sold;
 - ii. Rental contracts entered into with storage companies or preliminary contracts showing that it will have access to the required storage capacity or its commitments thereon -in order to prove that it will have access to the storage capacity required to contribute to the secure operation of the system;
- e. For distribution license:
Information, documents and commitments stipulated in the Distribution and Customer Services Regulation.
- f. For CNG license:
- i. Location of the loading and unloading facilities;
 - ii. Number of facilities and vehicles and their design capacities;
 - iii. Operating pressure of the facilities and vehicles;

- iv. Commitment declaring that the legal entity will guarantee that its facilities, vehicles, plants and equipment is safe and in conformity with Turkish Standards and/or other standards acceptable to the EU.
- v. Metering and control systems;
- g. For export license:
 - i. Information about the importing country and means of transportation;
 - ii. Transmission companies operating transit lines being an exception; declaration stating that it will not cause problems in system operation not deficits in domestic supply because of exporting and that, in cases where it violates system security, it will indemnify any harm or damage and that it will provide obligatory insurance coverage for this purpose.

Note: Where the founding shareholders are foreign companies or real persons of non-Turkish nationality, information and documents corresponding to those set forth in this annex shall be required.

In the license applications of public legal entities, only, the information and documents set forth in items 1, 2 and 12 shall be required.

ANNEX 4

MINIMUM PROVISIONS THAT MUST BE INCLUDED IN THE ARTICLES OF ASSOCIATION OF THE LEGAL ENTITIES WHICH ACQUIRE THE RIGHT TO BE GRANTED LICENSES IN ORDER TO BE ABLE TO ENGAGE IN MARKET ACTIVITIES

The articles of association of joint stock companies shall comply with the following conditions;

- a) Requirements arising from the applicable legislation must be fulfilled;
- b) All shares must be registered to name;
- c) Legal entity must have a minimum capital of:

Type of License	Capital (billion TL)
Import	1000
Storage	1000
Wholesale	1000
Export	500
CNG Sale	100
CNG Transmission	100
CNG Distribution	100
Transmission	5000
Distribution	the amount set forth in the tender announcement

- d) In cases where more than one license is requested; the minimum capital amounts shall be calculated by summing up the relevant amounts from the above table.
 - e) In cases where it becomes inevitable to cancel a distribution license; in order to protect the consumers and ensure that there is no interruption in the services, it must be accepted in advance that:
 - 1) To ensure the continuation of the activities within the scope of the license and uninterrupted operation of the distribution system; the Authority may appoint people to temporarily replace any or all members of the board of directors or executive board of the licensee or, if the licensee is not a joint stock company, members of the shareholders general assembly and/or those in charge of management.
 - 2) As the Authority may start a tendering process, within 120 days, for the sale of the relevant network and for the determination of new licensee, for and on behalf of the licensee; the sales price of the network and the principles and procedures pertaining to the tender process will be set by the Board.
 - f) The approval of the Authority must be obtained in relation to the amendments to the articles of association.
 - g) Provisions related to transfer of shares must be incorporated as per article 42.
- Articles of association of companies other than joint stock companies must be in conformity with all the above provisions, except for the provisions of paragraph (b).