

Public Disclosure Authorized

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**CONFORMED COPY**

**LOAN NUMBER 7509-AZ**

# **Project Agreement**

**(Rail Trade and Transport Facilitation Project)**

**between**

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

**and**

**“AZERBAIJAN RAILWAYS” CLOSED JOINT STOCK COMPANY**

**Dated December 18, 2009**

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Public Disclosure Authorized

**LOAN NUMBER 7509-AZ**

**PROJECT AGREEMENT**

Agreement dated December 18, 2009, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and “AZERBAIJAN RAILWAYS” CLOSED JOINT STOCK COMPANY (“Azerbaijan Railways”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between REPUBLIC OF AZERBAIJAN (“Borrower”) and the Bank. The Bank and the Azerbaijan Railways 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 Azerbaijan Railways declares its commitment to the objectives of the Project. To this end, the Azerbaijan Railways 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 ADDY shall otherwise agree, the Azerbaijan Railways shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

**ARTICLE III - REPRESENTATIVE; ADDRESSES**

- 3.01. The Azerbaijan Railways Representative is Chairman of the Executive Board of the Azerbaijan Railways.

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

3.03. The Azerbaijan Railways Address is:

“Azerbaijan Railways” Closed Joint Stock Company  
230 D. Aliyeva  
Baku AZ 1010  
Republic of Azerbaijan

Facsimile:  
99412) 4984280

AGREED at Baku, Republic of Azerbaijan, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTON AND DEVELOPMENT

By: /s/ Gregory Jedrzejczak  
Authorized Representative

“AZERBAIJAN RAILWAYS” CLOSED JOINT  
STOCK COMPANY

By: /s/ Ziya Mammadov  
Authorized Representative

## SCHEDULE

### Execution of the Project

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Azerbaijan Railways shall maintain the PIU during the implementation of the Project, with adequate staffing and resources, and which shall be responsible for procurement monitoring and reporting, disbursement and financial management, maintenance of Project accounts and preparation of Project reports and financial statements.
2. The Azerbaijan Railways shall implement the Project in accordance with the Project Implementation Manual agreed upon between the Bank and the Borrower, as such manual may be amended from time to time upon the agreement between the Azerbaijan Railways and the Bank.

##### **B. Safeguards.**

1. The Azerbaijan Railways shall ensure that all measures necessary for the carrying out of the EMP shall be taken in a timely manner.

#### **Section II. Project Monitoring, Reporting and Evaluation**

##### **A. Project Reports**

The Azerbaijan Railways 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 the indicators agreed with the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later than two (2) weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.

##### **B. Financial Management, Financial Reports and Audits**

1. The Azerbaijan Railways 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 Azerbaijan Railways, including the operations, resources and expenditures related to the Project.

2. The Azerbaijan Railways 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 Azerbaijan Railways. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.
3. (a) Except as the Bank shall otherwise agree, the Azerbaijan Railways shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Azerbaijan Railways shows that the estimated net revenues of the Azerbaijan Railways for each fiscal year during the term of the debt to be incurred shall be at least 1.1 times the estimated debt service requirements of the Azerbaijan Railways in such year on all debt of the Azerbaijan Railways, including the debt to be incurred.  
  
(b) For the purposes of this Section:
  - (i) The term "debt" means any indebtedness of the Azerbaijan Railways maturing by its terms more than one year after the date on which it is originally incurred.
  - (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
  - (iii) 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 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.
  - (iv) 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.
- (v) 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.
- (vi) The term "reasonable forecast" means a forecast prepared by the Azerbaijan Railways not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Azerbaijan Railways accept as reasonable and as to which the Bank has notified the Azerbaijan Railways of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Azerbaijan Railways.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

### **Section III. Procurement**

All goods, works 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. Other Undertakings**

1. Except as the Bank shall otherwise agree, the Azerbaijan Railways, shall complete its transformation into a closed joint-stock company by June 30, 2010, in cooperation with the Borrower, including its inventory and financial evaluation, and a statement of all assets and liabilities to be transferred, and have taken all measures within its power to ensure that all of its liabilities pursuant to this Agreement and forthwith be transferred to the closed joint-stock company.

2. The Borrower will conduct discussions, with the involvement of the Bank, on further transformation of Azerbaijan Railways along lines of business.