

CONFORMED COPY

LOAN NUMBER 3903 HU

Project Agreement

(Budapest Urban Transport Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BUDAPEST TRANSPORT COMPANY

Dated October 2, 1995

LOAN NUMBER 3903 HU

PROJECT AGREEMENT

AGREEMENT, dated October 2, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BUDAPEST TRANSPORT COMPANY (BKV).

WHEREAS (A) by the Loan Agreement of even date herewith between Municipality of Budapest (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to thirty-eight million dollars (\$38,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that BKV agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by an agreement referred to in Section 3.01 (d) of the Loan Agreement to be entered into between the Borrower and BKV, part of the proceeds of the loan provided for under the Loan Agreement will be made available to BKV on the terms and conditions set forth in such agreement; and

WHEREAS BKV, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. BKV declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A and B of the Project.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. BKV shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A and B of the Project.

Section 2.04. BKV shall duly perform all its obligations under the Special Agreement. Except as the Bank shall otherwise agree, BKV shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Special Agreement, or any provision thereof.

Section 2.05. (a) BKV shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement, the Special Agreement, and other matters relating to the purposes of the Loan.

(b) BKV shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by BKV of its obligations under this Agreement or the Special Agreement.

ARTICLE III

Management and Operations of BKV

Section 3.01. BKV shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. BKV shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 3.03. BKV shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) BKV shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) BKV shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, BKV shall, from time to time, as required on its part, cause to be taken, all such measures as shall be required to produce, for each of its fiscal years after its fiscal year ending on December 31, 1994, gross revenue from all sources equivalent to not less than the following percentages of BKV's total operating expenses: 37% in 1995, 41% in 1996, 43% in 1997, 45% in 1998, 47% in 1999 and 50% in 2000 and the following years.

(b) Before August 31 in each of its fiscal years, BKV shall, on the basis of forecasts prepared by BKV in accordance with a methodology satisfactory to the Bank, review the adequacy of its tariffs to generate gross revenue to meet the requirements set forth in the preceding paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion. If any such review shows that BKV would not meet the requirements set forth in paragraph (a) of this Section during the current or next following year, BKV shall promptly inform the Bank of the measures proposed to be taken to achieve such requirements.

(c) For the purposes of this Section:

- (i) The term "gross revenues from all sources" means the sum of revenues from all sources related to BKV's operations, net non-operating income, but excluding VAT and any subsidies and grants from the Guarantor and the Borrower; and
- (ii) the term "total operating expenses" means the sum of all expenses related to BKV's operations, but including inter alia: (a) adequate maintenance and administration, (b) provision for depreciation based upon fixed assets revalued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank, and (c) all taxes or payments in lieu of taxes except

VAT related to BKV's operations, but excluding interest and other charges on debt and repayment of loans.

Section 4.03. (a) Except as the Bank shall otherwise agree, BKV shall not incur any debt unless a reasonable forecast of the revenues and expenditures of BKV shows that the estimated net revenues of BKV for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of BKV in such year on all debt of BKV, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of BKV 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 (including operating subsidies and grants) but excluding VAT; 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 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, but excluding any capital transfer from the Guarantor and the Borrower; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

Section 4.04. BKV shall implement an action plan, acceptable to the Bank, to reduce fare evasion to 7% of gross receipts from fares during 1997 and the following years, improve its operational productivity and separate its non-core activities.

Section 4.05. During execution of the Project: (i) BKV shall afford the Bank an opportunity to review its proposed investment plan for the following year by December 31 of each year; and (ii) except as the Bank shall otherwise agree, BKV shall not undertake any new investment in excess of an aggregate amount and the equivalent of \$5 million unless its economic rate of return is at least 10% as calculated in accordance with a method acceptable to the Bank.

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of BKV thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify BKV thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

For BKV:

Akacfa u. 15
1072 Budapest
Republic of Hungary

Telex:

226325

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of BKV may be taken or executed by the Director General or such other person or persons as the Director General shall designate in writing, and BKV shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the

District of Columbia, United States of America, as of the day
and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis

Acting Regional Vice President
Europe and Central Asia

BUDAPEST TRANSPORT COMPANY

By /s/ Botand Aba

Authorized Representative

