

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4868-UA

Project Agreement

(Power Transmission Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE ENTERPRISE NATIONAL POWER COMPANY - UKRENERGO

Dated November 9, 2007

PROJECT AGREEMENT

Agreement dated November 9, 2007, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and STATE ENTERPRISE NATIONAL POWER COMPANY - UKRENERGO (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between UKRAINE (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II - PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project and the Program. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is the Director of the Project Implementing Entity.
- 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 Project Implementing Entity's Address is:

State Enterprise National Power Company - Ukrenergo
25 Kominternu Street
01032 Kyiv
Ukraine

Telex:	Facsimile:
631124 "NDC UX"	(38-044) 238-3264)

AGREED at Kyiv, Ukraine, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCITON AND DEVELOPMENT

By /s/ Paul Bermingham
Authorized Representative

STATE ENTERPRISE NATIONAL POWER
COMPANY - UKRENERGO

By /s/ Vitaliy Timchenko
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Project Implementing Entity responsible for the overall day-to-day implementation and management of the Project

The Project Implementing Entity shall be responsible for the overall day-to-day implementation and management of the Project.

2. Project Implementation Unit

The Project Implementing Entity shall maintain a Project Implementing Unit, with staffing and resources satisfactory to the Bank, responsible for assisting the Project Implementing Entity carry out the overall day-to-day implementation and management of the Project, including consolidated financial and procurement management and other Project-related tasks.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project Implementing Entity's implementation of the Project, the Project Implementing Entity shall enter into a subsidiary agreement with the Borrower, through the MOF, MFE and NERC, under terms and conditions approved by the Bank, which shall include the following provisions setting forth that the proceeds of the Loan shall be made available to the Project Implementing Entity and that the Project Implementing Entity shall be responsible for the overall day-to-day implementation and management of the Project ("Subsidiary Agreement").
2. The Project Implementing Entity shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Project Implementing Entity and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Safeguards

1. Environmental Safeguard

(a) The Project Implementing Entity shall ensure that all measures necessary for the carrying out of the Environmental Management Plan shall be taken in a

timely manner and that all legal and administrative planning and environmental permits and authorizations necessary to carry out Parts A, B and C of the Project are secured in a timely manner and with due diligence.

(b) The Project Implementing Entity shall take all measures necessary and identified under the Environmental Management Plan at all times in a timely manner, ensuring that adequate information on the implementation of said measures is suitably included in the Project progress reports to be prepared pursuant to the provisions of Section II.B of this Schedule.

2. Land Acquisition for Part B of the Project

The Project Implementing Entity shall:

(a) notify the Bank of any intended acquisition of land for the purposes of the Project, in whole or in part, of the following: residences, agricultural holdings, commercial structures and businesses; and/or land used by people without claim to legal title;

(b) disclose the Land Acquisition Framework and the Information Brochure in a manner satisfactory to the Bank no less than sixty (60) days prior to carrying out any land acquisition activities under the Project; and

(c) ensure that all land acquisition under the Project shall be undertaken in accordance with the Land Acquisition Framework, and the Information Brochure shall be sent to all affected persons at the onset thereof along with the notice of expropriation.

Section II. Project Monitoring, Reporting and Evaluation

A. Midterm Review

1. Not later than March 31, 2010 the Project Implementing Entity, together with the MOE and the MFE, shall carry out jointly with the Bank, a mid-term review of the progress made in carrying out the Project (hereinafter referred to as the Mid-term Review).

The Mid-term Review shall cover, amongst other things:

(a) progress made in meeting the Project's objectives; and

(b) overall Project performance against Project performance indicators.

2. The Project Implementing Entity with the MFE, shall prepare, and at least three (3) month prior to the Midterm Review, furnish to the Bank, a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally (the “Mid-term Report”).

B. Project Reports

1. The Project Implementing Entity with the MFE shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project 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 year, and shall be furnished to the Borrower not later one month 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.
2. The Project Implementing Entity shall provide to the Borrower not later than six (6) months after the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.
3. The Project Implementing Entity with the MFE shall prepare annually a report on or about June 30, beginning on June 30, 2008, for each year during project implementation containing financial projections and projections of Project Monitoring and Evaluation Indicators, under terms satisfactory to the Bank for the upcoming year to be reviewed by the Bank.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one Fiscal Year. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six months after the end of the period.
3. The Project Implementing Entity shall take all actions required to ensure that the Financial Management Manual is applied and followed at all times in the implementation, monitoring and evaluation of the Project.

Section III. Procurement

All goods and services required for the Project Implementing Entity's respective Parts of] 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

The Project Implementing Entity shall maintain: (a) debt service coverage ratio of at least 1.5 during the Project implementation period; (b) current ratio of at least 1.2 during the Project implementation period; and (c) to carry out revaluation of its assets in accordance with terms of reference and consultants satisfactory to the Bank by June 30, 2009.

(a) the term "current ratio" means a ratio of current assets to current liabilities where:

- (i) Current assets means cash and all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the fiscal year.
- (ii) Current liabilities means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(b) the term "debt" means any indebtedness of the Project Implementing Entity;

(c) 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; and

(d) the term " debt service coverage ratio" means the aggregate of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.