

CONFORMED COPY

CREDIT NUMBER 2903 BOS

Project Agreement

(Emergency Electric Power Reconstruction Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ELEKTROPRIVREDA BOSNE I HERCEGOVINE

Dated July 31, 1996

CREDIT NUMBER 2903 BOS

PROJECT AGREEMENT

AGREEMENT, dated July 31, 1996, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ELEKTROPRIVREDA BOSNE I HERCEGOVINE (EPBiH).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Bosnia and Herzegovina (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty four million nine hundred thousand Special Drawing Rights (SDR 24,900,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that EPBiH agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) By a subsidiary loan agreement to be entered into between the Borrower and EPBiH, a portion of the proceeds of the credit provided for under the Development Credit Agreement will be relent to EPBiH on the terms and conditions set forth in EPBiH Subsidiary Loan Agreement; and

WHEREAS EPBiH, in consideration of the Association's entering into the Development Credit 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

Definition

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

ARTICLE II

Execution of the Project

Section 2.01. EPBiH declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Parts A, B, C, D, F, and G.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and power utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A, B, C, D, F, and G.1 of the Project.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, B, C, D, F, and G.1 of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Credit Agreement.

Section 2.03. (a) EPBiH shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 the Project Agreement and Parts A, B, C, D, F, and G.1 of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, EPBiH shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of Parts A, B, C, D, F, and G.1 of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

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

Section 2.05. (a) EPBiH shall, at the request of the Association, exchange views with the Association with regard to the progress of Parts A, B, C, D, F, and G.1 of the Project, the performance of its obligations under this Agreement and under the EPBiH Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) EPBiH shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Parts A, B, C, D, F, and G.1 of the Project, the accomplishment of the purposes of the Credit, or the performance by EPBiH of its obligations under this Agreement and under the EPBiH Subsidiary Loan Agreement.

Section 2.06. EPBiH shall establish, and until completion of the Project, maintain a Project Implementation Unit, within EPBiH, with adequate staff, funds, facilities and other resources reasonably required to carry out Parts A, B, C, D, F and G.1 of the Project in a manner satisfactory to the Association.

Section 2.07. EPBiH shall carry out the environmental action plan, agreed with the Association, in a manner satisfactory to the Association.

Section 2.08. EPBiH shall, by October 31, 1996, enter into a contract with RUT for the supply of coal to the Tuzla Power Station, under Part A.2 (a) (i) of the Project, under terms and conditions satisfactory to the Association.

ARTICLE III

Management and Operations of EPBiH

Section 3.01. EPBiH shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and power utility practices under the supervision of qualified and experienced management assisted by

competent staff in adequate numbers.

Section 3.02. EPBiH 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 power utility practices.

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

ARTICLE IV

Financial Covenants

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

(b) EPBiH 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 Association;

(ii) furnish to the Association as soon as available, but in any case not later than four (4) 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 Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) EPBiH shall put into effect a billing and collection system resulting in the collection from its customers of at least sixty percent (60%), ninety percent (90%), and one-hundred percent (100%) of the total current cash operating expenses of EPBiH in calendar year 1996, 1997 and 1998, respectively. For the purposes of this paragraph, the term "total current cash operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes but excluding depreciation and interest and other charges on debt.

(b) Before June 30 in each of its fiscal year commencing in 1997, EPBiH shall, on the basis of forecasts prepared by EPBiH and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that EPBiH would not meet the requirements set forth in paragraph (a) for EPBiH's fiscal years covered by such review, EPBiH shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

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

Section 5.02. (a) This Agreement and all obligations of the Association and of EPBiH thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify EPBiH of this event.

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 Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

For EPBiH:

7100m Sarajevo
Zmaj od Bosnia 20
Bosnia and Herzegovina

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 EPBiH, or by EPBiH on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the General Manager or such other person or persons as the General Manager shall designate in writing, and EPBiH shall furnish to the Association 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 DEVELOPMENT ASSOCIATION

By /s/ Christine Wallich

Acting Regional Vice President
Europe and Central Asia

ELEKTROPRIVREDA BOSNE I HERCEGOVINE

By /s/ Sven Alkalaj

Authorized Representative

