

CONFORMED COPY

LOAN NUMBER 8055-AM

Project Agreement

(Electricity Supply Reliability Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

**HIGH VOLTAGE ELECTRIC NETWORKS CLOSED JOINT STOCK COMPANY OF
THE REPUBLIC OF ARMENIA**

Dated June 1, 2011

PROJECT AGREEMENT

Agreement dated June 1, 2011, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and HIGH VOLTAGE ELECTRIC NETWORKS CLOSED JOINT STOCK COMPANY OF THE REPUBLIC OF ARMENIA (“HVEN” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between REPUBLIC OF ARMENIA (“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. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Operational Manual and 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 its General Director.
- 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:

1 Zoravar Andranik Street,
Yerevan, 0084
Republic of Armenia

Facsimile:

(37410) 72-01-21

AGREED at Yerevan, Republic of Armenia, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Asad Alam

Authorized Representative

HIGH VOLTAGE ELECTRIC NETWORKS
CLOSED JOINT STOCK COMPANY OF
THE REPUBLIC OF ARMENIA

By /s/ Sahak Abrahamyan

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements.

The HVEN shall ensure that its necessary resources, staff, powers or functions shall not be deprived in order not to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations to carry out the Project.

B. Anti-Corruption

The HVEN shall ensure that Part A of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards.

1. Except as the Bank shall otherwise agree, the HVEN shall to: (a) apply to all activities under the Project the criteria, policies, procedures and arrangements set out in the ESIA, EMP for the Project and/or the RPF, as the case may be; and (b) not amend or waive, or permit to be amended or waived the ESIA, EMP for the Project and/or the RPF, as the case may be, or any provision thereof, in a manner which, in the opinion of the Bank, may materially and adversely affect the implementation of the Project.
2. The HVEN shall:
 - (a) ensure that: (i) the bidding documents for selection of contractor under the Project, and a contract to be entered into with the contractor for implementation of the activities under Part A of the Project includes a requirement for it to comply with the ESIA, EMP and/or the RPF; and (ii) adequate budget for implementation of the activities and penalties for non-compliance of the EMP, RPF and site specific EMPs and RAPs under the Project;
 - (b) ensure that: (A) prior to commencing the civil works of respective section of the power transmission line under Part A of the Project, the selected contractor: (i) develops site-specific EMPs in accordance with the EMP for the Project to be submitted to the Bank before a start of civil works for its prior review and approval; (ii) makes arrangements for public review and comment of the site specific EMPs, any comments received have been responded to in a manner acceptable to the Bank, and the final approved version of the site specific EMPs have been disclosed locally; and (iii) appoints competent staff in adequate numbers and with such responsibilities and functions acceptable to the Bank as shall enable it to manage, coordinate and monitor the implementation of the site specific EMPs; and (B) during the implementation of civil works of a section of the power transmission line under Part A of the Project, the selected contractor: (i) ensures that the implementation of the site specific EMPs are completed in a

manner acceptable to the Bank, including all necessary measures to minimize and to mitigate any adverse environmental impacts caused by the implementation of the Project; and (ii) ensures that any provision of the site specific EMP is not assigned, amended, abrogated or waived without prior review and approval of the Bank;

- (c) ensure that: (A) prior to commencing the civil works of respective section of the power transmission line under Part A of the Project, the selected contractor: (i) develops site-specific, implementation ready RAPs based on guidelines, principles and procedures set forth in the RPF, and submits to the Bank before a start of civil works for review and approval; (ii) makes arrangements for public review and comment of the site specific RAPs, any comments received have been responded to in a manner, acceptable to the Bank, and the final approved version of the RAPs have been disclosed locally; and (iii) ensures that all compensation is paid and other measures implemented in accordance with the RAP provisions and procedures, following Bank's review and approval of the RAPs; and (B) during the implementation of civil works of a section of the power transmission line under Part A of the Project, the selected contractor: (i) carries out the contract in compliance with the site specific RAPs rules, principles and procedures; (ii) maintains or cause to be maintained and publicize or cause to be publicized, the availability of, grievance procedures to hear and determine fairly and in good faith, in accordance with the RPF, all complaints raised in relation to the implementation of the RAPs by those being affected and/or resettled (as that term is defined in the site specific RAPs) or by those communities who are adversely affected by the implementation of site specific RAPs, as the case may be, and take all measures necessary to implement the RAPs determinations made under such grievance procedures; and (iii) ensures that any provision of the site specific RAPs is not assigned, amended, abrogated or waived without prior review and approval of the Bank.
- (d) take all such other actions necessary, including, without limitations: (i) recruiting an international resettlement expert, satisfactory to the Bank, to conduct an ex post review of the implementation of the site specific RAPs; (ii) furnish promptly to the Bank the site specific RAPs findings and recommendations for follow up action resulting from each review; (iii) implement all site-specific RAPs recommendations for follow up action as are agreed with the Bank; and (iv) any other actions the Bank may decide as necessary and appropriate.

Section II. Project Monitoring, Reporting and Evaluation.

A. Project Reports

1. The Project Implementing Entity 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 acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later two 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.

2. The Project Implementing Entity shall provide to the Borrower not later than six 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.

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 of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six months after the end of the period; and (b) made publicly available in a timely fashion and in a manner 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. (a) Except as the Bank shall otherwise agree, the HVEN shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Project Implementing Entity shows that the estimated net revenues of HVEN 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 the HVEN in such year on all debt of the HVEN including the debt to be incurred.
- (b) For the purposes of this Section:
 - (i) The term “debt” means any indebtedness of Project Implementing Entity 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 Project Implementing Entity not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Project Implementing Entity accept as reasonable and as to which the Bank has notified the Project Implementing Entity 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 Project Implementing Entity.
- (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.