
LOAN NUMBER 856 IRN

Project Agreement

(Power Transmission Project)

BETWEEN

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

AND

IRAN POWER GENERATION AND TRANSMISSION
COMPANY (TAVANIR)

DATED SEPTEMBER 20, 1972

LOAN NUMBER 856 IRN

Project Agreement

(Power Transmission Project)

BETWEEN

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

AND

IRAN POWER GENERATION AND TRANSMISSION
COMPANY (TAVANIR)

DATED SEPTEMBER 20, 1972

PROJECT AGREEMENT

AGREEMENT, dated September 20, 1972, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and IRAN POWER GENERATION AND TRANSMISSION COMPANY (hereinafter called TAVANIR).

WHEREAS by the Loan Agreement of even date herewith between Iran (hereinafter called the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to fifty-one million dollars (\$51,000,000), on the terms and conditions set forth in the Loan Agreement, but on condition that TAVANIR agree to undertake such obligations toward the Bank as hereinafter set forth;

WHEREAS by a subsidiary loan agreement to be entered into between the Borrower and TAVANIR, the proceeds of the loan provided for under the Loan Agreement will be made available to TAVANIR on the terms and conditions therein set forth; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Loan 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. (a) TAVANIR shall carry out the Project described in Schedule 2 to the Loan Agreement with due diligence and efficiency and in conformity with sound 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 the purpose.

(b) TAVANIR will carry out Parts A and B of the Project in accordance with the time-table set forth in Schedule 2 to this Agreement as such Schedule shall be amended from time to time.

Section 2.02. In order to assist TAVANIR in the preparation of plans, specifications and bidding documents for Parts A and B of the Project, in bid evaluation and in the supervision of the construction of the Project, TAVANIR shall continue to employ engineering consultants mutually acceptable to the Bank and TAVANIR upon terms and conditions satisfactory to the Bank.

Section 2.03. In carrying out Parts A and B of the Project, TAVANIR shall employ contractors mutually acceptable to the Bank and TAVANIR upon terms and conditions satisfactory to the Bank.

Section 2.04. Except as the Bank shall otherwise agree, the goods and services (other than services of consultants) required for the Project and to be financed out of the proceeds of the Loan, shall be procured by TAVANIR on the basis of international competition under procedures consistent with the Guidelines for Procurement under World Bank Loans and IDA Credits published by the Bank in April 1972 in accordance with, and subject to, the provisions set forth in Schedule 1 to this Agreement.

Section 2.05. (a) TAVANIR undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan relented to it by the Borrower against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by TAVANIR to replace or repair such goods.

(b) Except as the Bank may otherwise agree, TAVANIR shall cause all goods and services financed out of the proceeds of the Loan relented to it by the Borrower to be used exclusively for the Project.

Section 2.06. (a) TAVANIR shall furnish to the Bank, promptly upon their preparation, the plans, specifications, reports and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) TAVANIR: (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services

financed out of the proceeds of the Loan relented to it by the Borrower, and to disclose the use thereof in the Project; (ii) shall, without limitation upon the provisions of Section 5.03. of this Agreement, enable the Bank's representatives to inspect the Project, the goods financed out of such proceeds and any relevant records and documents; and (iii) shall furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan so relented to it and the goods and services financed out of such proceeds.

Section 2.07. TAVANIR shall: (i) apply the proceeds of the Loan relented to it by the Borrower under the Subsidiary Loan Agreement exclusively to financing the cost of goods and services required to carry out the Project; (ii) duly perform all its obligations under the Subsidiary Loan Agreement; and (iii) except as the Bank shall otherwise agree, not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.08. TAVANIR shall take all such action as shall be necessary to acquire, as and when needed, all such land and rights in respect of land as shall be required for the construction and operation of the facilities included in the Project and shall furnish to the Bank, if requested, evidence satisfactory to the Bank that such land and rights in respect of land are available for purposes of the Project.

ARTICLE III

Management and Operations of TAVANIR

Section 3.01. (a) Except as the Bank shall otherwise agree, TAVANIR shall at all times take all steps necessary on its part to: acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

(b) TAVANIR shall at all times conduct its operations under competent and experienced management, in accordance with sound administrative, financial, engineering and public utility practices and with the assistance of adequate qualified and experienced staff.

(c) TAVANIR shall at all times operate, maintain, renew and repair its facilities, plant, equipment and machinery in accordance with sound business, engineering and public utility practices.

(d) TAVANIR shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank (such as self-insurance) for, insurance against such risks and in such amounts as shall be consistent with sound public utility practices.

(e) Except in the normal course of business, TAVANIR shall not, without the prior approval of the Bank, sell, transfer, distribute or otherwise dispose of any of its property or assets which shall be required for its efficient operation and the sale, transfer, distribution or disposal of which would adversely affect TAVANIR's ability to carry out its obligations under this Agreement.

(f) In carrying out Part C of the Project TAVANIR shall retain consultants acceptable to the Bank on terms and conditions acceptable to the Bank to assist in the preparation, coordination and implementation of the three year training program.

ARTICLE IV

Financial Covenants

Section 4.01. TAVANIR shall maintain records adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition.

Section 4.02. TAVANIR shall: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year commencing with the fiscal year ending March 20, 1973, audited in accordance with sound auditing principles consistently applied, by independent auditors mutually acceptable to the Bank and TAVANIR; (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 the accounts and financial statements of TAVANIR and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.03. Except as the Bank shall otherwise agree, TAVANIR shall, by a date not later than one year from the Effective Date, complete the evaluation of its assets and bring its fixed assets records fully up to date.

Section 4.04. Except as the Bank shall otherwise agree, TAVANIR shall not create or permit to be created any mortgage, pledge, charge or other lien on any

of its property or assets; provided, however, that the foregoing provisions of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property, and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

Section 4.05. TAVANIR shall take all such steps as shall be required on its part to ensure that its tariffs conform to the provisions of Section 4.02 of the Loan Agreement.

Section 4.06. Except as the Bank and TAVANIR shall otherwise agree, TAVANIR shall not incur any debt, other than debt required to finance the carrying out of the Project, unless TAVANIR's net revenue from its operations for the fiscal year next preceding such incurrence or for a later twelve-month period ended prior to such incurrence, whichever revenue is the greater, shall be at least 1.5 times the maximum debt service requirement for any succeeding fiscal year on all debt incurred by TAVANIR, including the debt proposed to be incurred. For the purposes of this Section:

(a) "Debt" means any debt maturing by its terms more than one year after the date on which it is originally incurred.

(b) Debt shall be deemed to be incurred on the date of execution and delivery of a contract, loan agreement or guarantee agreement providing for such debt.

(c) "Net revenue from its operations" means gross revenue of TAVANIR from all sources, adjusted to take account of rates for the sale of electric power in effect at the time of incurrence of debt even though such rates were not in effect during the fiscal year or twelve months' period to which such income relates, less all operating and administrative expenses, including provision for taxes, if any, but before provision for depreciation and interest and other charges on debt.

(d) "Debt service requirement" means the aggregate amount of amortization (including sinking fund contributions, if any), interest and other charges on debt.

(e) 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 by TAVANIR for the purpose of servicing such debt.

ARTICLE V**Consultation, Information and Inspection**

Section 5.01. The Bank and TAVANIR shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank and TAVANIR shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance of their respective obligations under this Agreement, the administration, operations and financial condition of TAVANIR and other matters relating to the purpose of the Loan.

Section 5.02. The Bank and TAVANIR shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, or the performance by either of them of its obligations under this Agreement or the performance by the Borrower and TAVANIR of their respective obligations under the Subsidiary Loan Agreement.

Section 5.03. TAVANIR shall enable the Bank's accredited representatives to inspect all plants, sites, works, properties and equipment of TAVANIR and any relevant records and documents.

ARTICLE VI**Effective Date; Termination;
Cancellation and Suspension**

Section 6.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective. If pursuant to Section 11.04 of the General Conditions, the Loan Agreement shall terminate, the Bank shall promptly notify TAVANIR of this event and, upon the giving of such notice, this Project Agreement and all obligations of the parties thereunder shall forthwith terminate.

Section 6.02. (a) This Agreement and all obligations of the Bank and of TAVANIR thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Loan Agreement shall terminate in accordance with its terms; or
- (ii) a date twenty years after the date of this Agreement.

(b) If the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Bank shall promptly

notify TAVANIR of this event and, upon the giving of such notice, this Agreement and all obligations of the parties thereunder shall forthwith terminate.

Section 6.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. 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.

For TAVANIR:

Iran Power Generation and Transmission
Company (TAVANIR)
Avenue Iran Novin
Tehran
Iran

Cable address:

TAVANIR
Tehran

Section 7.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of TAVANIR may be taken or executed jointly by a member of the Board of Directors and the Managing Director or such persons as they shall designate in writing.

Section 7.03. TAVANIR shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of the person or persons who will, on behalf of TAVANIR, take any action or execute any documents required or permitted to be taken or executed by TAVANIR pursuant to any of the provisions of this Agreement.

Section 7.04. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default, nor shall the action of such party in respect of any default or any acquiescence in any default affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 7.05. 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 representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and delivered 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/ J. Burke Knapp

Vice President

IRAN POWER GENERATION AND TRANSMISSION
COMPANY (TAVANIR)

By /s/ Zia Safai

Authorized Representative

By /s/ Zia Safai

Authorized Representative

SCHEDULE 1**Procurement**

1. With respect to any contract for goods and associated services estimated to cost the equivalent of \$50,000 or more:

(a) If bidders are required to prequalify, TAVANIR shall, before qualification is invited, inform the Bank in detail of the procedure to be followed and shall introduce such modifications in said procedures as the Bank shall reasonably request. The list of prequalified bidders, together with a statement of their qualifications and of the reasons for the exclusion of any applicant for prequalification shall be furnished by TAVANIR to the Bank for its comments before the applicants are notified and TAVANIR shall make such additions to or deletions from the said list as the Bank shall reasonably request.

(b) Before bids are invited, TAVANIR shall furnish to the Bank, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedure as the Bank shall reasonably request. Any further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

(c) After bids have been received and evaluated, TAVANIR shall, before a final decision on the award is made, inform the Bank of the name of the bidder to whom it intends to award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report by the consultants referred to in Section 2.02 of this Agreement on the evaluation and comparison of the bids received, together with the recommendation for award of the said consultants, and the reasons for the intended award. The Bank shall, if it determines that the intended award would be inconsistent with the procedures set forth or referred to in Section 2.04 of this Agreement, promptly inform TAVANIR and state the reasons for such determination.

(d) The terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked.

(e) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of any such contract.

2. With respect to any other contract for goods and associated services estimated to cost less than the equivalent of \$50,000, TAVANIR shall furnish to the Bank, promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of any such contract, two conformed copies of such contract, together with the analysis of bids, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract is not consistent with the procedures set forth or referred to in Section 2.04 of this Agreement, promptly inform TAVANIR and state the reasons for such determination.

3. For the purpose of evaluating bids for goods and associated services, bid prices shall be determined and compared in accordance with the following rules, which shall be specified in the bidding documents:

(a) the term "Local Bid" means a bid submitted by a manufacturer established in the territories of the Borrower for goods manufactured or processed to a substantial extent (as reasonably determined by the Bank) in such territories; any other bid shall be deemed to be a "Foreign Bid";

(b) the bid price under a Local Bid shall be the sum of the following amounts:

(i) the ex-factory price of such goods, and

(ii) handling, inland freight, insurance and other costs of delivery of such goods to the place of their use or installation;

(c) for the purpose of comparing any Foreign Bid with any Local Bid, the bid price under a Foreign Bid shall be the sum of the following amounts:

(i) the c.i.f. price of such goods;

(ii) the amount of any import duties and taxes on the importation of such goods into the territories of the Borrower which generally apply to non-exempt importers, or 15% of the amount specified in (i) above, whichever shall be the lower; and

(iii) handling, inland freight, insurance and other costs of such goods to the place of their use or installation.

(d) for the purpose of comparison of bids, TAVANIR shall convert all bid prices into a single currency selected by TAVANIR and the rates of exchange

to be used in such valuation shall be the official selling rates of the *Bank Markazi Iran* for imported goods and applicable to such transactions by TAVANIR, on the day bids are opened unless there should be a change in the value of the currencies before the award is made. In such cases the exchange rates at the time of the decision to notify the award to the successful bidder should be used. This procedure shall be stated in the bidding documents.

4. Procurement for the transmission lines included in the Project shall be conducted on a "supply and erect" basis. For this purpose a "supply and erect" contract shall be deemed to be a contract for which a single contractor shall be responsible for the supply of towers, insulators, hardware, groundwire together with the erection thereof including the transmission line conductor for which separate bidding may be invited by TAVANIR.

5. Identical or similar items to be procured shall be grouped together to the extent practicable for the purpose of inviting bids.

SCHEDULE 2**Time-Table for Entry into Service
of Transmission Facilities
(Including Related Sub-Stations)***Facilities Included in the Project*

400 kV transmission, Reza Shah Kabir hydroelectric plant to Ahwaz	May 31, 1974
230 kV transmission, Gachsaran to Shiraz and Borazjan	October 31, 1974
400 kV transmission, Reza Shah Kabir hydroelectric plant to Esfahan	May 31, 1975
400 kV transmission, Reza Shah Kabir hydroelectric plant to Omidieh	May 31, 1975
400 kV transmission, Reza Shah Kabir hydroelectric plant to Arak	August 31, 1975