

CONFORMED COPY

CREDIT NUMBER 2634 KG

Project Agreement

(Telecommunications Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

KYRGYZ TELECOM

Dated July 7, 1994

CREDIT NUMBER 2634 KG

PROJECT AGREEMENT

AGREEMENT, dated July 7, 1994, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and KYRGYZ TELECOM (KT).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Kyrgyz Republic (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twelve million eight hundred thousand Special Drawing Rights (SDR 12,800,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that KT 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 KT, a portion of the proceeds of the credit provided for under the Development Credit Agreement will be relented to KT on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS KT, 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

Definitions

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. (a) KT 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 and B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering 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.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and KT shall otherwise agree, KT shall carry out Parts A and B of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and services required for Parts A and B 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 Development Credit Agreement.

Section 2.03. KT 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 and B of the Project.

Section 2.04. KT shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, KT shall 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 2.05. (a) KT shall, at the request of the Association, exchange views with the Association with regard to the progress of Parts A and B of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

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

ARTICLE III

Management and Operations of KT

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

Section 3.02. KT 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 and financial practices.

Section 3.03. KT 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) KT shall maintain separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A and B of the Project.

(b) KT shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(c) KT shall:

- (i) furnish to the Association as soon as available, but in any case not later than six months after the end of each fiscal year its unaudited financial statements for the years 1995 and 1996;
- (ii) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (iii) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for its fiscal year starting on January 1, 1997 and each subsequent fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (iv) furnish to the Association 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 Association shall have reasonably requested; and
- (v) 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) Except as the Association shall otherwise agree, KT shall produce, for each of its fiscal years, funds from internal sources equivalent to not less than 100% of KT's local cost requirement for its annual capital expenditures after meeting its debt service requirements.

(b) Before September 30 in each of its fiscal years, KT shall, on the basis of forecasts prepared by KT and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and shall furnish to the Association a copy of such review upon its completion.

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

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues from all sources related to

operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and

- (B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
- (ii) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) non-operating expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above, interest on debt, and any other transfer to the Borrower or its entities.
 - (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
 - (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
 - (v) The term "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.
 - (vi) 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.
 - (vii) The term "capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations.
 - (viii) 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 as established by the National Bank of the Kyrgyz Republic 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 Association.

Section 4.03. (a) Except as the Association shall otherwise agree, KT shall maintain, for each of its fiscal years, a ratio of total after tax profit plus provisions for depreciation to total debt service requirement not less than 1.5:1.

(b) Before September 30 in each of its fiscal years, KT shall, on the basis of forecasts prepared by KT 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 KT would not meet the requirements set forth in paragraph (a) for KT's fiscal years covered by such review, KT shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

(d) For the purposes of this Section;

- (i) the term "total after tax profit" means the difference between the sum of operating revenues plus the net non-operating income, as defined in Section 4.02 (d)(ii) and total operating expenses; and
- (ii) the term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance and provision for depreciation.

Section 4.04. (a) By July 1, 1994, KT shall establish and thereafter maintain, unless otherwise agreed by the Association, tariff levels for calls made by any subscriber to the republics of the Commonwealth of Independent States (CIS) at a level at least equal to 150% of the outgoing Settlement Rate paid by KT on such calls, provided that, if one or more of the current republics of the CIS withdraw from the CIS, the provisions of paragraph (b) of this Section will apply to telephone calls made to such republic or republics;

(b) KT shall maintain, unless otherwise agreed by the Association, tariffs for international telephone calls other than those referred to in paragraph (a) of this Section at a level at least equal to (i) 150% of the applicable outgoing Settlement Rate paid by KT on such calls; or (ii) the sum equivalent of US\$1.00 per minute at the prevailing market exchange rate, whichever is greater; and

(c) for purposes of this Section, the term "Settlement Rate" refers to the country specific rates which will be agreed between KT and the international telephone operators of other countries for the settlement of their international telephone traffic and will be expressed in United States Dollars per minute or Special Drawing Rights per minute.

Section 4.05. Prior to the initiation of any investment involving expenditure to be made in excess of \$5,000,000 equivalent per annum, KT shall furnish to the Association a report in such detail as the Association shall reasonably request, establishing, to the satisfaction of the Association, the economic and financial viability of any such investment.

Section 4.06. By April 30, 1995, KT shall determine, on the basis of the financial statements and related accounting data for 1994, the aggregate amount of all monetary transfers made by KT to the Postal Department and MOC during 1994 and provide such information to the Association.

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 KT 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, 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 KT 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 KT:

Director General
Kyrgyz Telecom
720000, Bishkek
Chuy Prospect No. 96
Kyrgyz Republic

Telex:

2513 34 RTBSU

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 KT may be taken or executed by its Director General or such other person or persons as its Director General shall designate in writing, and KT 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/ R. Cheetham

Acting Regional Vice President
Europe and Central Asia

KYRGYZ TELECOM

By /s/ A.Chukin

Authorized Representative

SCHEDULE

Implementation Program

1. During execution of the Project KT shall maintain PIU with adequate staff in sufficient numbers and take all necessary measures consistent with Section II of Schedule 3 to the Credit Agreement to employ an advisor for the PIU and an advisor to the director general and to the financial controller of KT not later than March 31, 1995.
 2. By December 31, 1994, KT shall make satisfactory arrangements to implement training to be provided under Part B.3 of the Project.
 3. By June 30, 1995, introduce a performance based management and staff incentive program consistent with the performance ratios specified by KT in agreement with the Association.
 4. By June 30, 1995, KT shall conclude an interconnection agreement with the Republican Production Association of Microwave Trunks, Television and Radio Broadcasting regarding KT's usage of transmission and other telecommunications facilities required in respect of its operations.
 5. By June 30, 1996, KT shall implement a computerized billing system, acceptable to the Association.
 6. By December 31, 1996, KT shall implement a computerized accounting and financial management system.
 7. By June 30, 1997, KT shall prepare and submit to the Association a plan evaluating private investment opportunities in KT.
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