

CONFORMED COPY

CREDIT NUMBER 3175 AM

Yerevan Distribution Company  
Project Agreement

(Electricity Transmission and Distribution Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

Yerevan Distribution Company

Dated March 30, 1999

CREDIT NUMBER 3175 AM

PROJECT AGREEMENT

AGREEMENT, dated March 30, 1999 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and YEREVAN DISTRIBUTION COMPANY (YDC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of Armenia (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to fifteen million Special Drawing Rights (SDR 15,000,000) (the Credit) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that YDC 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 YDC, part of the proceeds of the Credit provided for under the Development Credit Agreement will be made available to YDC on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS YDC, in consideration of the Borrower's entering into the Development Credit Agreement with the Association, 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 in the Development Credit Agreement) have the respective meanings therein set forth, and, wherever used in this Agreement, reference to the Association, the Credit or the

Credit Account shall also be deemed as reference to the Bank.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) YDC 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 its respective activities under Part C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and YDC shall otherwise agree, YDC shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to the Development Credit Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of goods and consultants' services required for 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. YDC shall carry out, with respect to its activities under the Project, 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).

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

Section 2.05. (a) YDC shall, at the request of the Association, exchange views with the Association with regard to the progress of its activities under the Project, the performance of its obligations under this Agreement and under the YDC Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

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

## ARTICLE III

### Management and Operations of YDC

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

Section 3.02. YDC 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 environmental practices.

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

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) YDC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) YDC shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year beginning in the year 1998 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 six (6) 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) Except as the Association shall otherwise agree, YDC shall not incur any debt unless a reasonable forecast of the revenues and expenditures of YDC shows that the estimated net revenues of YDC during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of YDC in each year starting the fiscal year of 1999, on all debt of YDC including the debt to be incurred.

(b) For the purposes of this Section:

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) The term "reasonable forecast" means a forecast prepared by YDC not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Association and YDC accept as reasonable and as to which the Association has notified YDC 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 YDC.
- (v) 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 Association.

Section 4.03. (a) Except as the Association shall otherwise agree, YDC shall maintain, starting on January 1, 2000, a ratio of current assets to current liabilities of not less than 1.3:1.

(b) Before April 1 in each of its fiscal years, YDC shall, on the basis of forecasts prepared by YDC 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 YDC would not meet the requirements set forth in paragraph (a) for YDC's fiscal years covered by such review, YDC shall promptly take all necessary measures (including, without limitation, initiating 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 "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(ii) 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 (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(iii) 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 Association.

Section 4.04. YDC shall:

(a) take all necessary measures to ensure (i) by January 1, 2000 that its accounts receivable accumulated since January 1, 1999 shall be maintained at not more than the equivalent of ninety (90) days billing for electricity sales, and (ii) by January 1, 2000, that its accounts payable accumulated since January 1, 1999 shall be maintained at not more than the equivalent of ninety (90) days of expenses; and

(b) without limitation to the preceding paragraph (a), take all necessary measures to ensure actual collection of not less than 82% of its total billing during the year 1999, not less than 90% of its total billing during the year 2000, and not less than 95% of its total billing during year 2001.

#### 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 YDC thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify YDC 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 addresses 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:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

For YDC:

5/1 Miasnikyan Av.  
Yerevan 375025  
Republic of Armenia

Facsimile:

(3742) 522-276

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of YDC, may be taken or executed by its Director, or by such other person or persons as YDC shall designate in writing, and YDC 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/ Judy O'Connor

Acting Regional Vice President  
Europe and Central Asia

YEREVAN DISTRIBUTION COMPANY

By /s/ Rouben Shugarian

Authorized Representative

