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CREDIT NUMBER 2868-0 KG
CREDIT NUMBER 2868-1 KG

Project Agreement

(Power and District Heating Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

JOINT STOCK COMPANY SEVERELECTRO

Dated July 29, 2003

CREDIT NUMBER 2868-0 KG
CREDIT NUMBER 2868-1 KG

PROJECT AGREEMENT

AGREEMENT, dated July 29, 2003, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and JOINT STOCK COMPANY SEVERELECTRO (Severelectro).

WHEREAS (A) by the Restated Development Credit Agreement dated July 3, 1996, as amended and restated on even date herewith between Kyrgyz Republic (the Borrower) and the Association (the Restated Development Credit Agreement), the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty-four million eight hundred thousand Special Drawing Rights (SDR 24,800,000), on the terms and conditions set forth in the Restated Development Credit Agreement, but only on condition that Severelectro agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary loan agreement to be entered into between the Borrower and Severelectro pursuant to Section 3.01 (c) of the Restated Development Credit Agreement, the proceeds of the credit will be made available to Severelectro on the terms and conditions set forth in said Subsidiary Loan Agreement.

WHEREAS, Severelectro in consideration of the Association's entering into the Restated 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 Restated Development Credit Agreement, the Preamble to this 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. Severelectro 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 C and D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts C and D of the Project.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts C and D 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 Restated Development Credit Agreement.

Section 2.03. (a) Severelectro 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 C and D of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, Severelectro 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 Association and Severelectro, a plan for the future operation of Parts C and D of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with Severelectro on said plan.

Section 2.04. Severelectro shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, Severelectro 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) Severelectro shall, at the request of the Association, exchange views with the Association with regard to the progress of Parts C and D 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) Severelectro 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 Severelectro of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. Until the completion of the Project, Severelectro jointly with Vostokelectro, Oshelectro and Jalal-Abadelectro shall maintain the PIU and shall ensure that it is staffed by personnel with qualifications and under terms of reference, and functions at all times necessary and adequate to assist Severelectro, Vostokelectro, Oshelectro and Jalal-Abadelectro to carry out Parts C and D of the Project, and satisfactory to the Association.

ARTICLE III

Management and Operations of Severelectro

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

Section 3.02. Severelectro 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, environmental and public utility practices.

Section 3.03. Severelectro 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) Severelectro shall maintain records and account 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) Severelectro 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 six months after the end of each such year: (A) certified copies of said financial statements reflecting the records and accounts referred to in paragraph (a) of this Section 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 requested.

Section 4.02. (a) Severelectro shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 6 months after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such 6 months period; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. Severelectro shall:

(a) prepare annually and review with the Association not later than by October 31 of each calendar year its investment program for the following five years; and

(b) consider and take into account the Association's views in finalizing said program.

Section 4.04. Severelectro shall ensure that starting from January 1, 2005, the consumption of power by all its consumers is being properly metered in a manner satisfactory to the Association.

Section 4.05. Severelectro shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project, and the achievement of the objectives thereof.

Section 4.06. Severelectro shall observe international standards regarding environmental protection and safety in the operations, maintenance and capital expenditure activities related to its electricity distribution business, in a manner satisfactory to the Association.

Section 4.07. Severelectro shall take all action required on its part to ensure that its accounts receivable for power do not exceed the equivalent of 60 days of its average annual billing.

Section 4.08. By October 31 of each year, Severelectro shall submit to the Association, for its review, an operating and capital budget for the following year, with the indication of its financing sources.

Section 4.09. (a) Except as the Association shall otherwise agree, Severelectro shall not incur any debt unless a reasonable forecast of the revenues and expenditures of Severelectro shows that the estimated net revenues of Severelectro 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 Severelectro in such year on all debt of Severelectro including the debt to be incurred.

(b) For the purposes of this Section:

(i) the term "debt" means any indebtedness of Severelectro 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 Severelectro not earlier than twelve months prior to the incidence of the debt in question, which both the Association and Severelectro accept as reasonable and as to which the Association has notified Severelectro 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 Severelectro.

(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 Association.

Section 4.10. (a) Except as the Association may otherwise agree, and subject to paragraph (c) of this Section, for each fiscal year, starting with the year of 2003, Severelectro shall finance not less than thirty percent (30%) of its annual capital expenditures incurred for that year from its internal sources.

(b) For the purposes of paragraph (a) of this Section:

(i) the term "funds from internal sources" means the difference between: (x) the sum of revenues from all sources related to operations, net non-operating income and any reduction in working capital other than cash; and (y) 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 revenues from all sources other than those related to operation, and expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues;

(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 prepaid 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), interest and other charges on debt; and

(vii) the term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.

(c) For the purpose of monitoring compliance with the provisions of Section 4.10 (a), the requirement to produce funds from internal sources equivalent to not less than thirty percent (30%) of annual capital expenditures will be deemed to be satisfied in respect of a particular fiscal year if the average ratio of funds from internal sources to annual capital expenditures for that fiscal year, the previous fiscal year and the next fiscal year equals or exceeds thirty percent (30%).

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 Amending Agreement becomes effective.

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

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

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

(b) If the Restated 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 Severelectro 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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. 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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For Severelectro:

Joint Stock Company Severelectro
3 Chkalona St.
Lebedinovka, Alamudunski District
722160
Kyrgyz Republic

Facsimile:

(996-312) 23-85-65

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 Severelectro may be taken or executed by the General Director of Severelectro or such other person or persons as the General Director of Severelectro shall designate in writing, and Severelectro 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 city of Bishkek, Kyrgyz Republic, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Dennis de Tray

Authorized Representative

SEVERELECTRO

By: /s/ Saparbek Balkybekov

Authorized Representative