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LOAN NUMBER 3285-UZB

PROJECT AGREEMENT

(Northwest Region Power Transmission Line Project)

between

ASIAN DEVELOPMENT BANK

and

JOINT STOCK COMPANY UZBEKENERGO

DATED 12 November 2015

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UZB 47296

## PROJECT AGREEMENT

PROJECT AGREEMENT dated 12 November 2015 between ASIAN DEVELOPMENT BANK ("ADB") and JOINT STOCK COMPANY UZBEKENERGO ("UZBEKENERGO").

### WHEREAS

(A) by a Loan Agreement of even date herewith between the Republic of Uzbekistan ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of one hundred fifty million Dollars (\$150,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the loan be made available to Uzbekenergo and that Uzbekenergo agrees to undertake certain obligations towards ADB set forth herein; and

(B) Uzbekenergo, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

## ARTICLE I

### Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Particular Covenants

Section 2.01. (a) Uzbekenergo shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, Uzbekenergo shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to Uzbekenergo, and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. Uzbekenergo shall make available, promptly as needed, and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other

resources as required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, Uzbekenergo shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, Uzbekenergo shall procure all items of expenditures to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to the Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. Uzbekenergo shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. Uzbekenergo shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) Uzbekenergo shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, Uzbekenergo undertakes to insure, or cause to be insured, the Goods to be imported for the Project 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 to replace or repair such Goods.

Section 2.06. Uzbekenergo shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and Uzbekenergo shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

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

(c) ADB and Uzbekenergo shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, Uzbekenergo and the Loan.

Section 2.08. (a) Uzbekenergo shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the

expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of Uzbekenergo; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, Uzbekenergo shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, Uzbekenergo shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by Uzbekenergo of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) Uzbekenergo shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements for the Project audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Loan proceeds and compliance with the financial covenants of the Loan Agreement) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

(c) In addition to the annual audited financial statements referred to in subsection (a) hereinabove, Uzbekenergo shall (i) provide its annual financial statements prepared in accordance with IFRS; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; and (iii) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements in the English language and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(d) Uzbekenergo shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and Uzbekenergo and its financial affairs where they relate to the Project with the auditors appointed by Uzbekenergo pursuant to subsections

(a)(iii) and (c) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of Uzbekenergo, unless Uzbekenergo shall otherwise agree.

Section 2.10. Uzbekenergo shall enable ADB's representatives to inspect the Project, the Goods and any relevant records and documents.

Section 2.11. (a) Uzbekenergo shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.

(b) Uzbekenergo shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.

(c) Uzbekenergo shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.

Section 2.12. Except as ADB may otherwise agree, Uzbekenergo shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, Uzbekenergo shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, Uzbekenergo shall duly perform all its obligations under the Subsidiary Loan Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement.

Section 2.15. Uzbekenergo shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its Charter, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. Uzbekenergo shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

### **ARTICLE III**

#### **Effective Date; Termination**

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement comes into force and effect. ADB shall promptly notify Uzbekenergo of such date.

Section 3.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

### **ARTICLE IV**

#### **Miscellaneous**

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project 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, mail or facsimile to the party to which it is required or permitted to be given or made at its 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 ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2301.

##### For Uzbekenergo

6 Istiqlol St.  
Tashkent 100000  
Republic of Uzbekistan

Facsimile Number:

+99871-236-2700.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 6.01 of the Loan Agreement by or on behalf of Uzbekenergo may be taken or executed by the Chairman of the Board of Uzbekenergo or by such other person or persons as he or she shall so designate in writing notified to ADB.

(b) Uzbekenergo shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project 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.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names as of the day and year first above written, and to be delivered at the principal office of ADB.

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
TAKEO KONISHI  
Country Director  
Uzbekistan Resident Mission

JOINT STOCK COMPANY  
UZBEKENERGO

By   
\_\_\_\_\_  
ISKANDAR BASIDOV  
Chairman of the Board

## SCHEDULE

### Execution of Project; Financial Matters

#### Implementation Arrangements

1. Uzbekenergo shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail. The parties agree that Uzbekenergo may request ADB to consider changes to the implementation arrangements for the Project and such changes shall become effective only after approval by ADB and execution of any such agreements (including amendments to the Loan Agreement and this Project Agreement) as may be necessary or appropriate for the purpose.
2. Uzbekenergo shall make available adequate counterpart funds and other resources in addition to the proceeds of the Loan, and have such counterpart funds and resources released in a timely manner, for the successful implementation of the Project.
3. Uzbekenergo shall adequately staff and equip the PMU in accordance with the PAM and ensure that the PMU is fully functioning until the completion of the Project.
4. Uzbekenergo shall at all times act in compliance with the provisions, processes and procedures set out in or taken under the Procurement Guidelines.
5. Uzbekenergo shall ensure that the procurement of the Civil Works will be subject to, and will be governed by, all applicable laws and regulations of the Borrower relating to procurement and contract management.

#### Operational Covenants

6. Uzbekenergo shall ensure that (i) the Project facilities are installed in accordance with design specifications and construction norms; and (ii) construction supervision, quality control and contract management are performed in accordance with best international industry practices. Uzbekenergo shall install, equip, operate, maintain and manage the Project facilities in compliance with applicable standards and best international practices.
7. Uzbekenergo shall ensure that ADB's written consent is obtained at least 6 months prior to the implementation of any of the following: (a) change in ownership of any asset, facility or structure financed under the Project; (b) sale, transfer, or assignment of interest or control in any asset, facility or structure financed under the Project; or (c) lease or other contract or modification of the functions and authority of Uzbekenergo over the operation and maintenance of any asset, facility or structure financed under the Project. Uzbekenergo shall ensure that ADB is promptly notified of any proposal to implement any such changes and the notification includes sufficient details regarding the change to be implemented. Uzbekenergo shall ensure that any such changes will be carried out in a legal and transparent manner.



Financial Covenants

8. Uzbekenergo shall ensure that, during the term of the Loan Agreement, the free cash flows of Uzbekenergo for the current Financial Year shall be at least 1.2 times the debt service requirements for the same period on all debt based on Uzbekenergo's entity financial statements which shall be prepared on a fully consolidated basis in accordance with IFRS. For the purposes of this paragraph:

- (a) the term "debt" means any indebtedness of Uzbekenergo maturing by its term more than 1 year from the date on which it was originally incurred;
- (b) the term "debt service requirements" means the aggregate amount of all repayments (including sinking fund payments, lease payments under finance leases, if any) whether or not actually paid, and interest and other charges on debt, provided that interest charges which are incurred in financing capital expenditure during development are excluded if they are capitalized; and
- (c) the term "free cash flows" means the difference between (i) the sum of revenues from all sources related to operations, after making adequate provision for uncollectible debt and net non-operating income; and (ii) the sum of all expenses related to operations including administration, maintenance, current taxes and payments in lieu of taxes (but excluding provision for depreciation, other non-cash expenses, and deferred taxes), movements in working capital other than cash.

9. Uzbekenergo shall generate, for each Financial Year during the term of the Loan Agreement, cash from internal sources equivalent to not less than 20% of the average of Uzbekenergo's capital expenditures incurred, or expected to be incurred, for the current Financial Year, the previous Financial Year and the next Financial Year based on Uzbekenergo's entity financial statements which shall be prepared on a fully consolidated basis in accordance with IFRS. For the purposes of this paragraph:

- (a) the term "capital expenditures" means all expenses incurred on fixed assets, including interest charged to construction, related to operations;
- (b) the term "cash from internal sources" means the difference between (i) the sum of cash flows from all sources related to operations, plus cash generated from consumer deposits and consumer advances of any kind, sale of assets, cash yield of interest on investments, extraordinary gains, net non-operating income, decrease in working capital other than cash, and other cash inflows; and (ii) the sum of all expenses related to operations, including administration, adequate maintenance, and current taxes and payments in lieu of taxes (excluding provision for depreciation, other non-cash operating expenses and taxes), debt service requirements, extraordinary losses,

increase in working capital other than cash, and other cash outflows other than capital expenditures; and

- (c) the term “current assets excluding cash” means all assets, other than cash, which could, in the ordinary course of business, be converted to cash within the next 12 months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses with the next Financial Year.

### Environment

10. Uzbekenergo shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEE, the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

11. Uzbekenergo shall ensure that no contract for Civil Works which involves environmental impacts will be awarded until:

- (i) the State Committee of the Republic of Uzbekistan for Nature Protection has granted the final approval of the IEE; and
- (ii) Uzbekenergo has incorporated the relevant provisions from the EMP into the Civil Works contract.

### Land Acquisition and Involuntary Resettlement

12. Uzbekenergo shall ensure that all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in the Safeguards Monitoring Report.

13. Without limiting the application of the Involuntary Resettlement Safeguards or the RP, Uzbekenergo shall ensure that no physical or economic displacement takes place in connection with the Project until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

14. Uzbekenergo shall ensure that no contract for Civil Works which involves involuntary resettlement impacts will be awarded until the Borrower has prepared and submitted to ADB the final RP based on the Project's detailed design, and obtained ADB's clearance of such RP.

Indigenous Peoples

15. Uzbekenergo shall ensure that the Project does not have any indigenous peoples impact within the meaning of the Safeguard Policy Statement. In the event that the Project does have any such impact, Uzbekenergo shall take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower and with the Safeguard Policy Statement.

Human and Financial Resources to Implement Safeguards Requirements

16. Uzbekenergo shall make available necessary budgetary and human resources to fully implement the EMP and the RP.

Safeguards Monitoring and Reporting

17. Uzbekenergo shall do the following:

- (a) submit semi-annual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP and the RP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP or the RP promptly after becoming aware of the breach.

Safeguards – Related Provisions in Bidding Documents and Civil Works Contracts

18. Uzbekenergo shall ensure that any and all bidding documents and contracts for Civil Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP and the RP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide Uzbekenergo with a written notice of any unanticipated environmental or resettlement risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP and the RP;

- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

#### Prohibited List of Investments

19. Uzbekenergo shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

#### Labor Standards, Health and Safety

20. Uzbekenergo shall ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. Uzbekenergo shall include in the bidding documents and contracts financed by ADB under the Project and in the bidding documents and contracts for the Civil Works specific provisions requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

21. Uzbekenergo shall strictly monitor compliance with the requirements set forth in paragraph 20 above and provide ADB with regular reports.

#### Gender and Development

22. Uzbekenergo shall ensure that the principles of gender equity aimed at increasing Project benefits and impacts on women in the Project area consistent with ADB's Policy on Gender and Development (1998) are followed during implementation of the Project, including (a) equal pay to men and women for work of equal value; (b) enabling working conditions for women workers; and (c) taking necessary actions to encourage women living in the Project area to participate in the design and implementation of Project activities.

#### Governance and Anticorruption

23. Uzbekenergo shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

24. Uzbekenergo shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

25. Uzbekenergo shall provide updated information on the Project on Uzbekenergo's website, including information on the performance of the Project, business opportunities, bidding process and guidelines, outcome of biddings and summary progress reports of the Project.