

LN 8615-AM

Supplemental Letter No. 2

REPUBLIC OF ARMENIA

May 12, 2016

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Re: Loan No. 8615-AM  
(Power Sector Financial Recovery Program)  
Performance Monitoring Indicators

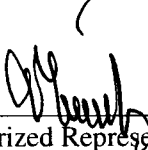
Dear Sirs and Mesdames:

This refers to the provisions of paragraph 1 of Section III.A of Schedule 2 to the Loan Agreement of this date between the Republic of Armenia (the Borrower) and the International Bank for Reconstruction and Development (the Bank) for the above-captioned Project.

The Borrower hereby confirms to the Bank that the indicators set forth in the attachment to this letter shall serve as a basis for the Borrower to monitor and evaluate the progress of the Project and the achievement of the objectives thereof.

Very truly yours,

REPUBLIC OF ARMENIA

By   
Authorized Representative

Attachment

## Project Name: Power Sector Financial Recovery Program (P157571)

## Annex 1: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

## Disbursement-Linked Indicator Matrix

				Time frame for achievement of DLI						
	Total financing allocated to DLI	% of total financing	DLI baseline	1S 2016	2S 2016	1S 2017	2S 2017	2018	2019	2020
<b>Results Area 1: Elimination of cash outflows of state-owned power companies for non-core business related reasons</b>										
DLI 1: Decision by the Shareholder Meeting of ANPP and YTPC, prohibiting the non-core business related expenditures, lending and borrowing by the above companies			No decision	Decision is made	-	-	-	-	-	-
<i>Amount allocated (US\$ million)</i>	3.00	10%		3.00	-	-	-	-	-	-
DLI 2: Liquidation of Haigasard			Exists as legal entity	Exists as legal entity	Decision on liquidation is made and liquidation plan is approved by the Shareholder's Meeting	-	-	Revaluation of assets is completed		Liquidation is registered by the authorized state agency
<i>Amount allocated (US\$ million)</i>	2.00	7%		0.00	1.00	-	-	0.50	-	0.50
DLI 3: No new non-core business related expenditures, borrowing and lending incurred by ANPP			ANPP incurs non-core business related expenditures	-	-	Yes	-	Yes	Yes	Yes
<i>Amount allocated (US\$ million)</i>	2.50	8%		-	-	1.90	-	0.20	0.20	0.20

DLI 4: No new non-core business related expenditures, borrowing and lending incurred by YTPC			YTPC incurs non-core business related expenditures	-	-	Yes	-	Yes	Yes	Yes
<i>Amount allocated (US\$ million)</i>	2.50	8%		-	-	1.90	0.00	0.20	0.20	0.2
<b>Results Area 2 : Reduction of the outstanding principal amounts of YTPC' and ANPP's commercial loans</b>										
DLI 5: Reduction of the principal amount of outstanding commercial loans of ANPP to be refinanced under the Program			0.00	5.00	7.00	4.40	-	-	-	-
<i>Amount allocated (US\$ million)</i>	6.56	22%		2.00	2.80	1.76	-	-	-	-
DLI 6: Reduction of the principal amount of outstanding commercial loans of YTPC to be refinanced under the Program			0.00	3.50	6.50	2.40	0.00	0.00	0.00	0.00
<i>Amount allocated (US\$ million)</i>	4.96	17%		1.40	2.60	0.96	-	-	-	-
<b>Results Area 3: End-user tariffs reflecting changes of electricity supply costs</b>										
DLI 7: ENA's margin for each new tariff period fully reflects the loss (revenue) accrued due to difference between the forecast and actual cost of electricity purchased by ENA during the preceding tariff period plus the associated interest expense (revenue).			No	No	Yes	-	Yes	Yes	Yes	Yes
<i>Amount allocated (US\$ million)</i>	2.00	7%		-	1.00	-	0.40	0.20	0.20	0.20
DLI 8: Tariffs for YTPC and Hrazdan TPP for each new tariff period fully reflect the loss (revenue) resulting from difference between forecast and actual cost of purchased natural gas due to fluctuation of AMD/US\$ exchange rate during the preceding period			No	No	Yes	-	Yes	Yes	Yes	Yes
<i>Amount allocated (US\$ million)</i>	2.00	7%		-	1.00	-	0.40	0.20	0.20	0.20
<b>Results Area 4: Maintaining the generation capacity of the gas turbine at YTPC's CCGT plant</b>										

DLI 9: Electricity supplied by YTPC is maintained			1400 GWh	At least 1400 GWh		At least 1400 GWh		At least 1400 GWh	At least 1400 GWh	At least 1400 GWh
<i>Amount allocated (US\$ million)</i>	4.48	15%		-	1.65	-	1.63	0.4	0.4	0.4
<b>Total disbursements</b>	<b>30.0</b>	<b>100%</b>		<b>6.40</b>	<b>10.05</b>	<b>6.52</b>	<b>2.43</b>	<b>1.70</b>	<b>1.20</b>	<b>1.70</b>

### DLI Verification Protocol Table

DLI	Definition/Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
			Data source/agency	Verification Entity	Procedure
DLI 1: <i>Decision</i> by the Shareholder's Meeting of ANPP and YTPC, prohibiting the non-core business related expenditures, lending and borrowing by the above companies.	The target will be considered achieved if the Shareholder's Meeting of ANPP and YTPC makes a <i>decision</i> prohibiting non-core business related expenditures, lending and borrowing.	No	Data source: Copies of the decisions by the Shareholder's Meeting of ANPP and YTPC, Agency: MENR	Independent Verification Agent (IVA), i.e. a law firm.	Review by IVA of the <i>decision</i> to determine whether those are legally binding upon the relevant entities.
DLI 2: Liquidation of Haigasard					
- <i>Decision</i> on liquidation is made and liquidation plan is approved by the Shareholder's Meeting	The target will be considered achieved if the Shareholder's Meeting makes the decision on liquidation and approves the liquidation plan.	No	Data source: Copy of the Shareholder's Meeting's <i>decision</i> on liquidation and approval of the liquidation plan and a copy of the liquidation plan. Agency: MENR	IVA, i.e. a law firm.	Review by IVA of the Shareholder's Meeting's decision to confirm it is consistent with the Armenian legislation and legally binding; and review of the liquidation plan and the Shareholder's Meeting's approval to confirm whether the liquidation plan: (a) covers all key aspects and steps required for liquidation of entities under the applicable Armenian legislation; (b) does not contain provisions

					contradicting the Armenian legislation; and (c) contains a time-table for liquidation with clear indication of responsibilities of involved parties.
- Revaluation of assets is completed.	The target will be considered achieved if revaluation of assets is completed.	No	Data source: Information from MENR on all key liquidation steps undertaken as per local legislation. Agency: MENR	IVA, i.e. a law firm.	Review by IVA of the report on revaluation of assets to confirm whether it was done in compliance with applicable standards for this kind of activity as stipulated in the applicable legislation of the country.
- Liquidation is completed and registered by the authorized state agency.	The target will be considered achieved if the authorized body registers the liquidation of Haigasard, which is the final step in the liquidation process.	No	Data source Information from MENR on all key liquidation steps undertaken as per local legislation. Agency: MENR	IVA, i.e. a law firm.	Review by IVA to confirm whether liquidation of Haigasard was registered by the authorized state agency in compliance with relevant legislation of the country and it constitutes the final step in liquidation process.
DLI 3: No new non-core business related expenditures, borrowing and lending incurred by ANPP.	The target will be considered achieved if ANPP incurs no new non-core business related expenditures and do not provide and take any new non-core business related loans.	No	Data source: Annual financial statements and other accounting records of ANPP. Agency: MENR	IVA, i.e. an audit firm, acceptable to the World Bank.	Review by IVA of the annual financial statements and other accounting and financial records, data and information of ANPP to confirm absence of non-core business related expenditures, borrowing and lending.
DLI 4: No new non-core business related expenditures, borrowing and lending incurred by YTPC.	The target will be considered achieved if YTPC incurs no new non-core business related expenditures and do not provide and take any new non-core business related loans.	No	Data source: Annual financial statements and other accounting records of YTPC. Agency: MENR	IVA, i.e. an audit firm, acceptable to the World Bank.	Review by IVA of the annual financial statements and other accounting and financial records, data and information of YTPC to confirm absence of non-core business related expenditures, borrowing and lending.
DLI 5: Reduction of the principal amount of outstanding commercial loans	The target will be considered achieved if ANPP reduces the	Yes	Data source: Financial statements, accounting	IVA, i.e. an audit firm, acceptable to the World Bank.	Review by IVA of the financial statements, accounting records and

of ANPP to be refinanced under the Program.	outstanding commercial debt.		records and other financial data of ANPP. Agency: MENR		other financial data of ANPP and comparison with the base-line level (established through independent audit) and target levels.
DLI 6: Reduction of the principal amount of outstanding commercial loans of YTPC to be refinanced under the Program.	The target will be considered achieved if YTPC reduces the outstanding commercial debt.	Yes	Data source: Financial statements, accounting records and other financial data of YTPC. Agency: MENR	IVA, i.e. an audit firm, acceptable to the World Bank.	Review by IVA of the financial statements, accounting records and other financial data of YTPC and comparison with the base-line level (established through independent audit) and target levels.
DLI 7: ENA's margin for each new tariff period fully reflects the loss (profit) accrued due to difference between the forecast and actual cost of electricity purchased by ENA plus the associated interest expense (revenue).	The target will be considered achieved if ENA's margin is revised by PSRC at least once a year and for each new tariff period fully reflects the loss (revenue) accrued due to difference between the forecast and actual cost of electricity purchased by ENA during the preceding tariff period.	No	Data source: (a) tariff margin computation for ENA for tariff period subject to review with break-down by main line item costs as published and approved by PSRC; (b) data from PSRC on approved tariffs for all large generating plants for the period preceding the tariff review period; and (c) forecast generation numbers used by the PSRC, provided by EPSO, to compute the tariffs for the preceding period; and (d) actual generation numbers reported by the Settlement Centre. Agency: MENR	IVA, i.e. a law firm.	Review by IVA of the ENA margin approved by the PSRC to confirm that it fully reflects the loss (revenue) accrued due to difference between the forecast and actual cost of electricity purchased by ENA
DLI 8: Tariffs for YTPC and Hrazdan TPP for each new tariff period fully reflect the loss (profit) resulting from difference between forecast and actual cost of purchased natural gas due to fluctuation	The target will be considered achieved if the tariffs for YTPC and Hrazdan TPP are revised by PSRC at least once a year and for each new tariff fully reflect the	No	Data source: (a) regulation for adjustment of exchange rate fluctuation driven fuel cost changes for YTPC and Hrazdan TPP; (b) tariff computation for YTPC	IVA, i.e. a law firm.	Review by IVA of tariffs for YTPC and Hrazdan TPP to confirm they fully reflect the changes in the cost of natural gas due to changes in US\$/AMD exchange rate.

of AMD/US\$ exchange rate during the preceding period.	loss (revenue) accrued due to difference between forecast and actual cost of natural gas purchased during preceding tariff period.		and Hrazdan TPP for tariff period subject to review with break-down by main line item costs (including cost of natural gas) as published and approved by PSRC; (c) data from PSRC on gas tariffs effective for subject thermal power plants during the period for which compensation is computed; and (d) actual generation numbers of YTPC and Hrazdan TPP as reported by the Settlement Centre. Agency: MENR		
DLI 9: Electricity supplied by YTPC.	The target will be considered achieved if YTPC supplies to the power transmission network the specified amount of electricity in GWh.	No	Data source: Meters of YTPC at its substation registering the amount of electricity supplied to the power transmission network. Agency: YTPC	Settlement Centre.	Settlement Centre to report the annual amount of electricity supplied by YTPC to the power transmission network.

### Bank Disbursement Table

DLI	Bank financing allocated to the DLI (million US\$)	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
		Prior results (US\$ million)	Advances (US\$ million)				
DLI 1: <i>Decision</i> by the Shareholder's Meeting of ANPP and YTPC, prohibiting the non-core business related expenditures, lending and borrowing by the above companies.	3.00	0.00	0.00	June 30, 2016	The Shareholder's Meeting of ANPP and YTPC makes a <i>decision</i> , which prohibits the non-core business related expenditures, lending	N/A	100% disbursement for compliance

					and borrowing by those companies.		
DLI 2: Liquidation of Haigasard.							
- <i>Decision</i> on liquidation is made and liquidation plan is approved by the Shareholder's Meeting	1.00	0.00	0.00	Dec. 31, 2016	The Shareholder's Meeting approved the liquidation plan for Haigasard.	N/A	100% disbursement for compliance
- Revaluation of assets is completed.	0.50	0.00	0.00	Dec. 31, 2018	Haigasard completed revaluation of assets.	N/A	100% disbursement for compliance
- Liquidation is completed and registered by the authorized state agency.	0.50	0.00	0.00	Dec. 31, 2020	The State Register of the Legal Entities of the Ministry of Justice of Republic of Armenia registered the liquidation of Haigasard.	N/A	100% disbursement for compliance
DLI 3: No new non-core business related expenditures, borrowing and lending incurred by ANPP.	2.50	0.00	0.00	- For Borrower's fiscal year 2016: June 30, 2017 - For Borrower's fiscal year 2017: June 30, 2018 - For Borrower's fiscal year 2018: June 30, 2019 - For Borrower's fiscal year 2019: June 30, 2020 - For Borrower's fiscal year 2020: June 30, 2021	No new non-core business related expenditures, borrowing and lending by ANPP.	N/A	100% disbursement for compliance
DLI 4: No new non-core business related expenditures, borrowing and lending incurred by YTPC	2.50	0.00	0.00	- For Borrower's fiscal year 2016: June 30, 2017 - For Borrower's fiscal year 2017: June 30, 2018	No new non-core business related expenditures, borrowing and lending YTPC	N/A	100% disbursement for compliance



				For Borrower's fiscal year 2018: June 30, 2019 For Borrower's fiscal year 2019: June 30, 2020 For Borrower's fiscal year 2020: June 30, 2021			
DLI 5: Reduction of the principal amount of outstanding commercial loans of ANPP to be refinanced under the Program	6.56	0.00	4.50	For 1 <sup>st</sup> semester 2016: June 30, 2016 For 2 <sup>nd</sup> semester 2016: Dec. 31, 2016 For 1 <sup>st</sup> semester 2017: June 30, 2017	- \$5.00 million reduction during the period of Jan.1, 2016 - June 30, 2016 - \$7.00 million reduction during the period of Jul.1, 2016 - Dec. 31, 2016 - \$4.40 million reduction during the period of Jan. 1, 2017 - June 30, 2017	\$16.4 million reduction	Formulas: US\$0.40 for each US\$1 of reduction in outstanding principal amount of baseline commercial debt, but not more than US\$16.4 million
DLI 6: Reduction of the principal amount of outstanding commercial loans of YTPC to be refinanced under the Program	4.96	0.00	3.00	For 1 <sup>st</sup> semester 2016: June 30, 2016 For 2 <sup>nd</sup> semester 2016: Dec. 31, 2016 For 1 <sup>st</sup> semester 2017: June 30, 2017	- \$3.50 million reduction during the period of Jan.1, 2016 - June 30, 2016 - \$6.00 million reduction during the period of Jul.1, 2016 - Dec. 31, 2016 - \$2.40 million reduction during the period of Jan. 1, 2017 - June 30, 2017	\$12.4 million reduction	Formulas: US\$0.40 for each US\$1 of reduction in outstanding principal amount of baseline commercial debt, but not more than US\$12.4 million
DLI 7: ENA's margin for each new tariff period fully reflects the loss (profit) accrued due to difference between the forecast	2.00	0.00	0.000	- For 2 <sup>nd</sup> semester 2016: any time until December 31, 2016	ENA's margin for each new tariff period fully reflects the loss (revenue)	N/A	100% disbursement for compliance

and actual cost of electricity purchased by ENA during the preceding tariff period plus the associated interest expense (revenue).				<ul style="list-style-type: none"> <li>- For 2<sup>nd</sup> semester 2017: any time until December 31, 2017</li> <li>- For 2018: any time until December 31, 2018</li> <li>- For 2019: any time until December 31, 2019</li> <li>- For 2020: any time until December 31, 2020</li> </ul>	accrued due to difference between the forecast and actual cost of electricity purchased by ENA during the preceding tariff period		
DLI 8: Tariffs for YTPC and Hrazdan TPP for each new tariff period fully reflect the loss (profit) resulting from difference between forecast and actual cost of purchased natural gas due to fluctuation of AMD/US\$ exchange rate during the preceding period.	2.00	0.00	0.00	<ul style="list-style-type: none"> <li>- For 2<sup>nd</sup> semester 2016: any time until December 31, 2016</li> <li>- For 2<sup>nd</sup> semester 2017: any time until December 31, 2017</li> <li>- For 2018: any time until December 31, 2018</li> <li>- For 2019: any time until December 31, 2019</li> <li>- For 2020: any time until December 31, 2020</li> </ul>	Tariffs for YTPC and Hrazdan TPP for each new tariff period fully reflect the loss (revenue) resulting from difference between forecast and actual cost of purchased natural gas due to fluctuation of AMD/US\$ exchange rate during the preceding period	N/A	100% disbursement for compliance
DLI 9: Electricity supplied by YTPC.	4.48	0.00	0.00	<ul style="list-style-type: none"> <li>- For 2016: Dec. 31, 2016</li> <li>- For 2017: Dec. 31, 2017</li> <li>- For 2018: Dec. 31, 2018</li> </ul>	<ul style="list-style-type: none"> <li>- 1400 GWh/year</li> <li>- 1400 GWh/year</li> <li>- 1400 GWh/year</li> <li>- 1400 GWh/year</li> </ul>	Annual electricity supply in excess of the specified minimum value is acceptable.	100% disbursement for compliance

				- For 2019: Dec. 31, 2019 - For 2020: Dec. 31, 2020	- 1400 GWh/year		
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