
LOAN NUMBER 3407-AZE

LOAN AGREEMENT
(Ordinary Operations)

(Power Distribution Enhancement Investment Program – Project 1)

between

"AZERISHIQ" OPEN JOINT-STOCK COMPANY

and

ASIAN DEVELOPMENT BANK

DATED 22 July 2016

AZE 42401

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 22 July 2016 between the "AZERISHIQ"
OPEN JOINT-STOCK COMPANY ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 15 April 2016 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Power Distribution Enhancement Investment Program;

(B) by a periodic financing request dated 15 April 2016, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) the loan is to be guaranteed by the Republic of Azerbaijan ("Guarantor") under the terms of the Guarantee Agreement of even date herewith between the Guarantor and ADB; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit.

(a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.

- (b) Section 3.06 is deleted and the following is substituted therefor:

Rebate. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

- (c) Section 3.07 is deleted and the following is substituted therefor:

Surcharge. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined

by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(b) "Consulting Services" means the services to be financed out of the proceeds of the Loan as described in paragraph 3(c) of Schedule 1 to this Loan Agreement;

(c) "Environmental Assessment and Review Framework" or "EARF" means the environmental assessment and review framework for the Investment Program, including any update thereto, agreed between the Borrower and ADB and incorporated by reference in the FFA;

(d) "Environmental Management Plan" or "EMP" means an environmental management plan for the Project, including any update thereto, incorporated in the IEE;

(e) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(f) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(g) "FAM" means the Facility administration manual dated 12 April 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(h) "FFA" means the framework financing agreement dated 15 April 2016 between ADB and the Borrower with respect to the Facility;

(i) "Financial Year" means the financial year of the Borrower, which runs from 1 January to 31 December of each calendar year unless otherwise notified to ADB;

(j) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(k) "IFRS" means International Financial Reporting Standards issued by the International Accounting Standards Board from time to time;

(l) "Initial Environmental Examination" or "IEE" means an initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the EARF and cleared by ADB;

(m) "Investment Program" means the Power Distribution Enhancement Investment Program;

(n) "LARF" means the land acquisition and resettlement framework for the Investment Program, including any update thereto, agreed between the Borrower and ADB and incorporated by reference in the FFA;

(o) "LARP" means a land acquisition and resettlement plan for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the LARF and cleared by ADB;

(p) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(q) "PMU" means project management unit which shall be responsible for day-to-day project implementation, monitoring and evaluation, reporting, and preparation of subsequent tranches of the Investment Program;

(r) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(s) "Procurement Plan" means the procurement plan for the Project dated 1 April 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(t) "Project Regions" means the regions of Aran, Baku, Canub, Garb, Markazi Aran, Shimal, Shimal Garb, which distribution networks are under administration and operation by the Borrower, or such other region as ADB may otherwise agree;

(u) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(v) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of, and compliance with, the EMP, the RP and the IPP (as applicable), including any corrective and preventative actions; and

(w) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and Project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of two hundred fifty million Dollars (\$250,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

- (a) LIBOR; and
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and

(iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this 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 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2019 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Project to be carried out 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, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower 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 and for the operation and maintenance of the Project facilities.

Section 4.03. (a) Whenever applicable, in the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to ADB to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

(b) The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and ADB, as applicable. The Borrower 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 4.04. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.05. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with IFRS; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with the International Standards on Auditing; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, 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 end of each related fiscal year, 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 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) In addition to annual audited financial statements referred to in subsection (a) hereinabove, the Borrower shall (i) provide its annual financial statements prepared in accordance with IFRS on a consolidated basis; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iii) as part of each such audit, have the auditors prepare the auditors' opinion(s) on the financial statements and compliance with the financial covenants of the Loan Agreement

(being paragraphs 12 and 13 of Schedule 5 to this Loan Agreement); and (iv) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements and auditors' opinion(s), 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.

(d) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) 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 the Borrower, unless the Borrower shall otherwise agree.

Section 4.06. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.07. The Borrower shall ensure that any facilities relevant to the Project are operated, maintained and repaired in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.

ARTICLE V

Effectiveness

Section 5.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Deputy Chairman of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

"Azerishiq" Open Joint-Stock Company
13, A. Bakihanov str.
Baku, AZ 1065
Azerbaijan

Facsimile Number:

(994) 12 595 81 99.

For ADB

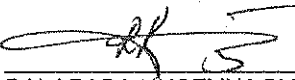
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

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

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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.

"AZERISHIQ" OPEN JOINT-STOCK COMPANY

By 
BALABABA HUSEYNAGHA RZAYEV
Chairman

ASIAN DEVELOPMENT BANK

By 
NARIMAN MANNAPBEKOV
Country Director
Azerbaijan Resident Mission

SCHEDULE 1**Description of the Project**

1. The objective of the Investment Program is improved power distribution efficiency and reliability.
2. As a part of the Investment Program, the Project aims to increase availability of reliable electricity supply to all domestic consumers.
3. The Project shall consist of the following components in the Project Regions:
 - (a) rehabilitation and augmentation of aging medium- and low-voltage distribution networks including approximately 4 units of 110 kV substations, 16 units of 35 kV substations, 1,157 units of 6-10 kV transformer stations; 54 km of 110 kV distribution lines, 124 km of 35 kV distribution lines, and 1,237 km of 6-10 kV distribution lines;
 - (b) replacement of approximately 3,900 km of 0.4 kV customer service lines with new self-supporting aerial bundled cables, including installation of approximately 108,409 smart digital electric meters. The existing 0.4 kV bare overhead conductors will be completely replaced; and
 - (c) support for institutional strengthening of the Borrower, including:
 - (i) technical, financial and administrative support to the PMU for the management and supervision of the Project, and capacity building and training for financial management, accounting and auditing, Project management, procurement, monitoring and evaluation, human resources management, social and environmental safeguards compliance and monitoring; and
 - (ii) improvement of operation and maintenance facilities in the Borrower's regional distribution networks, including construction of administration centers and procurement of vehicles and equipment (including information technology equipment).
4. The Project is expected to be completed by 31 December 2018.

SCHEDULE 2

Amortization Schedule

(Power Distribution Enhancement Investment Program – Project 1)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Date Payment Due</u>	<u>Installment Share (Expressed as a %)</u>
15 November 2021	4.55000%
15 May 2022	4.40000%
15 November 2022	4.25000%
15 May 2023	4.10000%
15 November 2023	3.96000%
15 May 2024	3.82000%
15 November 2024	3.69000%
15 May 2025	3.57000%
15 November 2025	3.45000%
15 May 2026	3.33000%
15 November 2026	3.21000%
15 May 2027	3.10000%
15 November 2027	3.00000%
15 May 2028	2.90000%
15 November 2028	2.80000%
15 May 2029	2.70000%
15 November 2029	2.61000%
15 May 2030	2.52000%
15 November 2030	2.43000%
15 May 2031	2.35000%
15 November 2031	2.27000%
15 May 2032	2.19000%
15 November 2032	2.12000%
15 May 2033	2.04000%
15 November 2033	1.97000%
15 May 2034	1.91000%
15 November 2034	1.84000%
15 May 2035	1.78000%
15 November 2035	1.72000%
15 May 2036	1.66000%

<u>Date Payment Due</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
15 November 2036	1.60000%
15 May 2037	1.55000%
15 November 2037	1.49000%
15 May 2038	1.44000%
15 November 2038	1.39000%
15 May 2039	1.35000%
15 November 2039	1.30000%
15 May 2040	1.26000%
15 November 2040	1.21000%
15 May 2041	1.17000%
Total	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest and Commitment Charges

3. The amount allocated to Category 2 is for financing interest and commitment charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

6. Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Works, Goods and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Power Distribution Enhancement Investment Program – Project 1)			
Number	Category		Basis for Withdrawal from the Loan Account
	Item	Total Amount Allocated for ADB Financing (\$)	
1	Turnkey Contracts, Goods, and Consulting Services	240,000,000	100 % of total expenditure claimed*
2	Interest and Commitment Charges	10,000,000	100 % of total amount due
	Total	250,000,000	

*Exclusive of taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4**Procurement of Goods, Works and Consulting Services**General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
 - (a) International Competitive Bidding; and
 - (b) National Competitive Bidding;
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

Preference for Domestically Manufactured Goods

5. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding procedures in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.

National Competitive Bidding

6. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB. For the procurement of turnkey contracts for complete transformer substations and 35/10 kV substations, the national competitive bidding procedures shall comply with such additional modifications as set out in the master bidding documents as agreed between ADB and the Borrower for such contracts.
7. Notwithstanding provisions in the Procurement Plan and paragraph 6 above, ADB shall be entitled to, after consultation with the Borrower, require the Borrower to amend or modify (as applicable), and the Borrower shall so amend or modify, the agreed master bidding documents and national competitive procedures, respectively, for all contracts under national competitive bidding to be financed under this Project.

Conditions for Award of Contract

8. The Borrower shall not award any Works contract for the Project which involves environmental impacts until it has:

- (a) obtained the final approval of the IEE from the Ministry of Ecology and Natural Resources; and
- (b) incorporated the relevant provisions from the EMP into the Works contract.

Consulting Services

9. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging Consulting Services.

10. The Borrower shall apply the following method for selecting and engaging the specified Consulting Services, in accordance with, among other things, the procedures set forth in the Procurement Plan: Consultants' Qualifications Selection for external audits.

Industrial or Intellectual Property Rights

11. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

12. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

13. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

14. In the case of a contract for Goods or Works which is subject to ADB's prior review, the Borrower shall seek ADB's prior approval of any modification or waiver of the terms and conditions of the contract, including:

- (a) granting an extension of the stipulated time for completion of a contract for a period of 1 month or more, or which is likely to require an extension of the Loan Closing Date; and
- (b) increases in aggregate of the original price by more than 5% (for the avoidance of doubt, such increase shall take into account any previous change under such contract).

15. In the case of a contract for Goods or Works which is subject to ADB's post review, ADB shall review the required contract modification or waiver and respond to the Borrower as soon as practicable, but not later than 1 month after the receipt of the required document.

16. The Borrower shall provide to ADB copies of all time extensions, modifications or waivers to the contracts (including change orders) within 1 month following amendment of the contract.

SCHEDULE 5**Execution of Project; Financial Matters**Implementation Arrangements

1. The Borrower shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the FAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.
2. The Borrower shall ensure that:
 - (a) within 2 months after the Effective Date, the PMU is fully staffed with qualified and experienced specialists on technical, financial, procurement, and safeguards matters; and
 - (b) within 3 months after the Effective Date, a consulting firm is engaged, with dual reporting responsibility to both the Borrower and ADB, to assist PMU in Project implementation monitoring, procurement, evaluation and reporting, preparation of subsequent tranches of the Investment Program and capacity training to PMU members.
3. The Borrower shall ensure that the contracts for Works, Goods and related services financed by the Project are properly supervised to achieve timely and successful implementation, including by exercising its contractual rights as necessary or desirable in the best interests of Project implementation.
4. The Borrower shall construct, rehabilitate, install, equip, operate, maintain and operate the Project facilities in compliance with applicable national standards of the Guarantor, and that the construction supervision, quality control, contract management, and completion inspection and acceptance procedures shall be in accordance with contractual provisions and all applicable national and local laws and regulations of the Guarantor.
5. The Borrower shall ensure that the relevant staff will attend the training related to the operation of the distribution networks and metering system provided by the contractors of the contracts financed under the Project.

General Operations

6. The Borrower shall, promptly as required, take all actions within its powers 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.
7. The Borrower shall 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.

8. The Borrower shall 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.

9. Except as ADB may otherwise agree, the Borrower 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 Agreement. In addition to the foregoing, the Guarantor and the Borrower shall ensure that ADB's consent is obtained at least 6 months prior to the implementation of any of the following: (i) any change in ownership of any asset, facility or structure financed under the Project; (ii) any sale, transfer, or assignment of interest or control in any asset, facility or structure financed under the Project; or (iii) any lease or other contract or modification of the functions and authority of the Borrower over operation and maintenance of any such asset, facility or structure financed under the Project. The Guarantor and the Borrower shall ensure that any such changes shall be carried out in a legal and transparent manner.

10. Each of the Guarantor and the Borrower shall promptly notify ADB of (i) any proposal to amend, suspend or repeal any provision of its constitutional documents, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities; and (ii) any proposal to transfer an interest in the Borrower to a third party and information on the ultimate beneficial ownership of the interest proposed to be transferred. The Guarantor and the Borrower shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

Counterpart Support

11. The Guarantor and the Borrower shall make available all counterpart funding promptly as required for purposes of timely and successful implementation of the Project, including the full costs of construction of administration centers and procurement of vehicles and equipment (including information technology equipment) as described in paragraph 3(c)(ii) of Schedule 1 to this Agreement. In addition to the foregoing, the Guarantor shall ensure that the Borrower has sufficient funds to satisfy its liabilities arising from any Works, Goods and/or Consulting Services contract.

Financial Covenants

12. For every Financial Year ending on 31 December 2016 and thereafter, the Borrower shall ensure that:

- (a) the debt of the Borrower for the current Financial Year is not more than 3 times to its equity for the same period based on its audited consolidated annual financial prepared in accordance with IFRS. For the purposes of this paragraph:
 - (i) the term "debt" means any indebtedness of the Borrower maturing by its term more than 1 year from the date on which it was originally incurred; and

- (ii) the term "equity" means the sum of total unimpaired paid up capital, retained earnings, and reserves of the Borrower not allocated to cover specific liabilities.
- (b) the free cash flows of the Borrower 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 its audited consolidated annual financial statements prepared in accordance with IFRS. For the purposes of this paragraph:
- (i) the term "debt" means any indebtedness of the Borrower maturing by its term more than 12 months from the date on which it was originally incurred;
 - (ii) 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
 - (iii) the term "free cash flows" means the difference between (A) the sum of revenues from all sources related to operations, after making adequate provision for uncollectible debt and net non-operating income; and (B) 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.

13. The Borrower shall ensure that its current ratio, based on its audited consolidated annual financial statements prepared in accordance with IFRS, is (a) at least 0.50 for the Financial Year ending on 31 December 2016; (b) at least 0.75 for the Financial Year ending on 31 December 2017; and (c) at least 1 starting from for the Financial Year ending on 31 December 2018 and thereafter. For purposes of this paragraph:

- (i) the term "current ratio" means the ratio of current assets to current liabilities;
- (ii) the term "current assets" means all assets which could in the ordinary course of business be converted into cash within 12 months, including accounts receivable, marketable securities, inventories, prepaid expenses properly chargeable to operating expenses within the next Financial Year, and cash; and

- (iii) the term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within 12 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

14. For each Financial Year, the Borrower shall prepare its projected financial performance based on the prevailing electricity tariff, and estimate the additional resources required for it to fully achieve the covenants set out in paragraphs 12 to 13 above and submit a request to the Guarantor for subsidy. The Guarantor shall make such subsidy available in each year's annual budget, until such time as the tariffs are revised so as to enable the Borrower to fully comply with the financial covenants without any subsidy.

Sector

15. The Guarantor shall (a) regularly review the financial position of the electricity sector; (b) ensure the financial sustainability of the electricity sector; and (c) keep the ADB informed of its actions in ensuring the financial sustainability of the electricity sector. The Guarantor shall ensure that the Borrower will achieve full cost recovery by 31 December 2022, by pursuing financial and tariff reform and gradually adjusting tariff level and structure, taking into account cost reduction, efficiency improvement and targeted financial support to protect vulnerable groups of customers.

16. The Guarantor shall ensure that (a) ADB is informed about updates to the State Program on the Development of the Fuel and Energy Sector in Azerbaijan (2005–2015); (b) it remains committed to the implementation of the State Program on the Development of the Fuel and Energy Sector in Azerbaijan (2005–2015), or updates or amendments thereto as satisfactory to ADB; and (c) its Cabinet of Ministers coordinates the work between Ministry of Economy, Ministry of Ecology and Natural Resources, Ministry of Energy, Ministry of Finance and other government ministries and agencies for the expeditious resolution of any issues, and timely implementation of the Project.

Environment

17. The Borrower 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 Guarantor relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Indigenous Peoples; Land Acquisition and Involuntary Resettlement

18. The Borrower shall ensure that the Project does not have any indigenous peoples or involuntary resettlement impacts, each within the meaning of ADB's Safeguard Policy Statement (2009). In the event that the Project does have any such impact, the Borrower shall take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower, the LARF and ADB's Safeguard Policy Statement.

Human and Financial Resources to Implement Safeguards Requirements

19. The Borrower shall make available necessary budgetary and human resources to fully implement the EMP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

20. The Borrower shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures and requirements relevant to the contractor set forth in the IEE and the EMP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set out in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Borrower with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE and the EMP;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

21. The Borrower shall do the following:

- (a) submit semiannual 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 or the EMP, 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 promptly after becoming aware of the breach.

Prohibited List of Investments

22. The Borrower 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

23. The Borrower shall ensure that the core labor standards and applicable laws and regulations of the Guarantor are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the applicable labor law and regulations of the Guarantor 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.

24. The Borrower shall strictly monitor compliance with the requirements set forth in paragraph 23 above and provide ADB with regular reports.

Gender and Development

25. The Borrower 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

26. The Borrower and the Guarantor 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.

27. The Borrower 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.