September 8, 2015

H.E. Gagik Khachatryan
Minister of Finance
Ministry of Finance
1 Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

Re: Republic of Armenia
Electricity Supply Reliability Project
Loan No.8055-AM
First Amendment to the Loan Agreement

Excellency:

We refer to the Loan Agreement for the above-captioned Project between Republic of Armenia (the “Borrower”) and the International Bank for Reconstruction and Development (the “Bank”), dated June 1, 2011, (the “Loan Agreement”). Please note that capitalized terms used in this letter (the “Amendment Letter”) and not defined herein have the meaning ascribed in them in the Loan Agreement.

We also refer to your letter No.12/5-112-386 dated July 17, 2013 to the Bank; the Project’s Aide-Memoire for the World Bank energy mission on June 18-25, 2015; and recent exchanges between the Borrower and the Bank with regards to the need to introduce certain modifications to the Loan Agreement, which include: (i) additional activities under Part A of the Project and safeguards implications; (ii) reduction of the maximum debt service requirements for HVEN; and (iii) extend the Closing Date.

The Bank therefore proposes to amend the Loan Agreement as set forth below:

1. Part A of Schedule 1 to the Loan Agreement is hereby amended to read as follows:

“Part A: Strengthening of the power transmission network

Provision of works, goods, and technical assistance for the replacement of an existing power transmission line from the Hrazdan Thermal Power Plant to Shinuhayr substation and existing Lalvar and Noyemberyan power transmission lines, including compensation and grievance mechanisms for land acquisition and resettlement.”
2. Part C under section I of Schedule 2 of the Loan Agreement is hereby amended to read as follows:

"C. Safeguards"

1. Except as the Bank shall otherwise agree, the Borrower shall, and shall cause HVFN to: (a) apply to all activities under the Project the criteria, policies, procedures and arrangements set out in the ESIA, site-specific EMPs for the Project and the RPF; and (b) not amend or waive, or permit to be amended or waived the ESIA, site-specific EMPs for the Project and the RPF, or any provision thereof, in a manner which, in the opinion of the Bank, may materially and adversely affect the implementation of the Project.

2. The Borrower shall, and shall cause HVFN to:

(a) ensure that: (i) the bidding documents for selection of contractors under the Project, and contracts to be entered into with the contractors for implementation of the activities under Part A of the Project include a requirement for those to comply with the ESIA, site-specific EMPs and the RPF; and (ii) adequate budget for implementation of the activities and penalties for non-compliance with the site-specific EMPs, RPF and RAPs under the Project.

(b) ensure that: (A) prior to commencing the civil works on respective sections of the power transmission lines under Part A of the Project, the selected contractors: (i) develop site-specific EMPs in accordance with the ESIA for the Project to be submitted to the Bank before a start of civil works for its prior review and approval; (ii) make arrangements for public review and comment of the site-specific EMPs, any comments received have been responded to in a manner acceptable to the Bank, and the final approved version of the site-specific EMPs have been disclosed locally; and (iii) appoint competent staff in adequate numbers and with such responsibilities and functions acceptable to the Bank as shall enable it to manage, coordinate and monitor the implementation of the site-specific EMPs; and (B) during the implementation of civil works on respective sections of the power transmission lines under Part A of the Project, the selected contractors: (i) ensure that the implementation of the site-specific EMPs is completed in a manner acceptable to the Bank, including all necessary measures to minimize and to mitigate any adverse environmental impacts caused by the implementation of the Project; and (ii) ensure that any provision of the site-specific EMPs are not assigned, amended, abrogated or waived without prior review and approval of the Bank.

(c) ensure that: (A) prior to commencing the civil works on respective sections of the power transmission line under Part A of the Project,
the selected contractors: (i) develop site-specific, implementation ready RAPs, as may be required, based on guidelines, principles and procedures set forth in the RPF, and submit to the Bank before a start of civil works for review and approval; (ii) make arrangements for public review and comment of the site specific RAPs, any comments received have been responded to in a manner, acceptable to the Bank, and the final approved version of the RAPs have been disclosed locally: (iii) ensure that all compensation is paid and other measures implemented in accordance with the RAP provisions and procedures, following Bank's review and approval of the RAPs; and (B) during the implementation of civil works on relevant sections of the power transmission line under Part A of the Project, the selected contractors: (i) carry out the contract in compliance with the site specific RAPs rules, principles and procedures; (ii) maintain or cause to be maintained and publicize or cause to be publicized, the availability of, grievance procedures to hear and determine fairly and in good faith, in accordance with the RPF, all complaints raised in relation to the implementation of the RAPs by those being affected and/or resettled (as that term is defined in the site specific RAPs) or by those communities who are adversely affected by the implementation of site specific RAPs, as the case may be, and take all measures necessary to implement the RAPs determinations made under such grievance procedures; and (iii) ensure that any provision of the site specific RAPs is not assigned, amended, abrogated or waived without prior review and approval of the Bank.

(d) take all such other actions necessary, including without limitations: (i) recruiting an international resettlement expert, satisfactory to the Bank, to conduct an ex post review of the implementation of the site specific RAPs; (ii) furnish promptly to the Bank the site specific RAPs findings and recommendations for follow up action resulting from each review; (iii) implement all site-specific RAPs recommendations for follow up action as agreed with the Bank; and (iv) any other actions the Bank may decide as necessary and appropriate.”

3. The Bank agrees to establish June 30, 2018 as the new Closing Date for the Project, and therefore, Section IV, B paragraph 2 of Schedule 2 of the Loan Agreement is hereby amended to read as follows:

“2. The Closing Date is June 30, 2018.”

4. There is a need to align the debt service requirements for HVEN under the Project with the ones already agreed in the Loan Agreement for the Additional Financing Electricity Reliability Project No. 8388-AM dated August 6, 2014 and therefore,
paragraph 1 (a) under Section V of Schedule 2 to the Loan Agreement is hereby amended to read as follows:

"1. (a) Except as the Bank shall otherwise agree, HVEN shall not incur any debt unless a reasonable forecast of the revenues and expenditures of HVEN shows that the estimated net revenues of HVEN for each Fiscal Year during the term of the debt to be incurred shall be at least 1.2 times the estimated debt service requirements of HVEN in such year on all debt of HVEN including the debt to be incurred."

5. The following definitions in Section I of the Appendix to the Loan Agreement are hereby amended to read as follows:

The definition of “EMP” is deleted entirely and the subsequent paragraphs renumbered accordingly.

6. “EMPs” means the site-specific environmental management plans for respective target sections of the power transmission lines under the Project, to be prepared by the selected contractors pursuant to Section C.2 (b) of Schedule 2 to this Agreement, and satisfactory to the Bank, describing the environmental mitigation and monitoring measures under the Project.

7. “ESIAs” means the environmental and social impact assessment report dated April 18, 2011 and the environmental and social impact assessment report dated July, 2015 (for additional sections of power transmission lines) and referred to in Section C.1 of Schedule 2 to this Agreement, prepared and adopted by HVEN during Project implementation, and found satisfactory to the Bank, which describe the environmental conditions of the Project areas, the expected impacts and their mitigation, under the prevailing regulatory framework of the Borrower and the Bank’s safeguards policies.

17. “RPF” means the resettlement policy framework dated April 18, 2011 and amended on July, 2015, adopted by the HVEN pursuant to Section C.2 of Schedule 2 to this Agreement and found satisfactory to the Bank, which sets out modalities for land acquisition, resettlement and rehabilitation measures for displaced persons under Part A of the Project.

18. “RAPs” means the site specific resettlement action plans to be prepared and approved by the HVEN pursuant to Section C.1 and 2 (a) of Schedule 2 to this Agreement as implementing recommendation of the RPF for selected sections of the respective power transmission lines under the Project.

6. In addition, with reference to the provisions of Section II.A of Schedule 2 to the Loan Agreement, the Project Performance Monitoring Indicators shall be amended as agreed with the Borrower as set forth in Annex A to this letter.
7. All other terms and conditions of the Loan Agreement shall remain unchanged and in full force and effect.

Upon your confirmation, please return one fully executed original to us. The provisions set forth in this Agreement Letter shall become effective upon: (i) receipt by the Bank of one fully executed original of this Amendment Letter; (ii) receipt by the Bank of the notice of completion of internal approval procedures under the laws of the Borrower; and (iii) notification by the Bank to the Borrower of the Agreement's effectiveness.

Please also note that the approved Restructuring Paper, dated September 1, 2015, will be disclosed on the Bank’s external website.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Eavan O’Halloran
Acting Regional Director

AGREED:

REPUBLIC OF ARMENIA

By: [Signature]

Authorized Representative

Name: Gagik Khachatryan

Title: Minister of Finance

Date: 08 November 2015
ANNEX A: Performance Monitoring Indicators

**Project Development Objectives:** The proposed Project Development Objective (PDO) is to increase the reliability and capacity of the power transmission network.

### Project Development Objective Indicators

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator One:</strong> Increased capacity of the targeted section of the transmission line</td>
<td>☐</td>
<td>MW</td>
<td>250</td>
<td>300</td>
<td>300</td>
<td>360</td>
<td>380</td>
<td>Annual</td>
<td>HVEN</td>
<td>HVEN</td>
</tr>
<tr>
<td><strong>Indicator Two:</strong> Outages per year on the target section of the transmission lines</td>
<td>☐</td>
<td>Number</td>
<td>14</td>
<td>20</td>
<td>20</td>
<td>8</td>
<td>3</td>
<td>Annual</td>
<td>HVEN</td>
<td>HVEN</td>
</tr>
<tr>
<td><strong>Indicator Three:</strong> Plant and equipment failures per year in target substations</td>
<td>☑</td>
<td>Number</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td>Annual</td>
<td>HVEN</td>
<td>HVEN</td>
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<td><strong>Indicator Four:</strong> Average interruption frequency per year in the project area</td>
<td>☒</td>
<td>Number</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.05</td>
<td>Annual</td>
<td>ENA, PSRC</td>
<td>HVEN</td>
</tr>
<tr>
<td>Customers served in the project area</td>
<td>☒</td>
<td>Number</td>
<td>62,000</td>
<td>62,000</td>
<td>62,000</td>
<td>62,000</td>
<td>62,000</td>
<td>Annual</td>
<td>ENA</td>
<td>HVEN</td>
</tr>
<tr>
<td><strong>Indicator Five:</strong> Average interruption frequency per year for customers of the Special Economic</td>
<td>☐</td>
<td>Number</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.05</td>
<td>Annual</td>
<td>ENA, PSRC</td>
<td>HVEN</td>
</tr>
</tbody>
</table>

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1. Caused by technical failures (plant, equipment, failure of operation).
2. Caused by technical failures (plant, equipment, failure of operation).
3. The frequency is calculated only for interruptions caused by failure of substations rehabilitated under the project.
Zone served by Hagmentak substation:

### Intermediate Results Indicators

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate Result Indicator One: Transmission lines constructed or rehabilitated under the project</td>
<td>Km</td>
<td>0</td>
<td>50</td>
<td>150</td>
<td>230</td>
<td>255</td>
<td>Annual</td>
<td>Project implementation progress reports</td>
<td>HVEN</td>
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<tr>
<td>Intermediate Result Indicator Two: Total number of substations rehabilitated under the project</td>
<td>Number</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>Annual</td>
<td>Project implementation progress reports</td>
<td>HVEN</td>
<td></td>
</tr>
<tr>
<td>Intermediate Result Indicator Three: Percent of registered project related grievances responded to within stipulated service standards for response times</td>
<td>Percent</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>Annual</td>
<td>GRM reports of HVEN</td>
<td>HVEN</td>
<td></td>
</tr>
</tbody>
</table>

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1 The frequency is calculated only for interruptions caused by failure of Hagmentak substation, which supplies power to Special Economic Zone.