Loan Agreement

(Additional Financing for Third Highway Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 7, 2016
LOAN AGREEMENT

Agreement dated April 7, 2016, between the REPUBLIC OF AZERBAIJAN ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and (for purposes of paragraph 2 of Schedule 4 hereto) INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"), for the purpose of providing additional financing for the project described in Schedule 1 to this Agreement ("Project"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred and forty million Dollars (US$140,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan"), to assist in financing the Project.

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the
interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

2.06. The Payment Dates are February 1 and August 1 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.08. (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, withdrawn or unwounded, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference 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 the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by Azeravtoyol OJSC in accordance with the provisions of Article V of the General Conditions and the Subsidiary Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:
(a) Maintain, until the completion of the Project, a Project account in Manat on terms and conditions acceptable to the Bank, to finance its counterpart contribution to the expenditures of the Project;

(b) Replenish, on a monthly basis, the Project Account up to the amounts required to cover the Borrower’s counterpart contributions to ensure a timely implementation of the Project, as determined by the Borrower and the Bank; and

(c) Ensure that the funds deposited into said Project account shall be used exclusively to finance the Borrower’s counterpart contributions to the Project.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely that Azeravtoyol OJSC charter and/or its structure is modified so as to affect materially and adversely the ability of Azeravtoyol OJSC to perform any of its obligations under the Subsidiary Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Subsidiary Agreement has been amended in a manner acceptable to the Bank; and

(b) The Operational Manual has been updated in a manner acceptable to the Bank.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Minister of Finance.

6.02. The Borrower’s Address is:

Ministry of Finance
135 Samed Vurgun Street
Baku AZ1022
Republic of Azerbaijan

Telex: 142116 BNKSL
Facsimile: 99412 4044720

                       99412 4044721
6.03. The Bank’s Address is:

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

<table>
<thead>
<tr>
<th>Cable address:</th>
<th>Telex:</th>
<th>Facsimile:</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTBAFRAD</td>
<td>248423(MCI) or</td>
<td>1-202-477-6391</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>64145(MCI)</td>
<td></td>
</tr>
</tbody>
</table>

AGREED at Baku, Republic of Azerbaijan, as of the day and year first above written.

REPUBLIC OF AZERBAIJAN

By:  

[Signature]  
Authorized Representative

Name: ____________________________
Title: ____________________________

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

By:  

[Signature]  
Authorized Representative

Name: ____________________________
Title: ____________________________
SCHEDULE 1

Project Description

The objectives of the Project are to contribute to more efficient and safer Baku-Shamakhi and Yenikend-Shorsulu roads and higher quality road services as part of the general network upgrading to motorway standard, and to improve the management of the nascent motorway network.

The Project consists of the following parts:

Part A: Motorway Improvement

1. Upgrading the existing two lane Baku-Shamakhi and Yenikend-Shorsulu roads to a four lane motorway and the related road safety activities, through the carrying out of works and the provision of goods and consultants’ services.

2. Provision of consultants’ services for the supervision of the above mentioned roads and the design of priority investments, including preparation of feasibility and design documents for construction of the M4 Shamakhi-Aghsu road section along its new alignment, to bypass active landslide and problematic mountainous areas.

Part B: Institutional Development and Support for Motorway Maintenance Reform

1. Preparation of a study to explore options for an effective management and operation of Azerbaijan’s motorways, through the provision of consultants’ services and training.

2. Institutional development of the Azeravtoyol OJSC in motorway operation and maintenance by: (a) establishing motorway guidelines; (b) providing technical assistance to its motorway management unit and regional motorway maintenance units; and (c) preparing motorways management and operations strategy, through the provision of goods, consultants’ services and training.

3. Rehabilitation and construction of offices and depots and provision of goods and equipment for the regional motorway maintenance units.

Part C: Project Management and Institutional Support

Supporting the Project management capacity of the PIU, through the provision of goods, consultants’ services and training, including for: (a) the monitoring and evaluation of the Project; (b) the update of a road database; (c) the carrying out of road user satisfaction surveys; and (d) the carrying out of Project audits.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

1. All the Borrower’s obligations referred to in Section I of Schedule 2 to the Original Loan Agreement shall apply to the execution of the Project.

2. Without limitations upon the provisions of paragraph 1 of this Section, prior to the carrying out of any activities to be financed with the proceeds of the Loan, the Borrower shall: (a) amend the Subsidiary Agreement; and (b) update the Operational Manual, including updated RPF, EMF, Regional Environmental Review and EIA(s), both for purposes of this Loan and in a manner satisfactory to the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

2. The Borrower shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 2017, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date.

3. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall cause Azeravtoyol OJSC to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. The Borrower shall cause Azeravtoyol OJSC to prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower cause Azeravtoyol OJSC to have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit
of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>PROCUREMENT METHOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to the following additional provisions:</td>
</tr>
<tr>
<td>(i) Only open tender, one-stage method may be used. Request for proposal method shall not be used.</td>
</tr>
<tr>
<td>(ii) There should be no requirement to submit bid-related documentation prior to the deadline for submission of bids. Bid opening should take place immediately after bid submission. Registration shall not be required as a condition for bidding.</td>
</tr>
<tr>
<td>(iii) There shall be no eligibility restrictions based on nationality of bidder.</td>
</tr>
<tr>
<td>(iv) Pre-qualification shall not be used for simple works procurement and shall be conducted only for large works contracts.</td>
</tr>
<tr>
<td>(v) Entities in which the State or a State official owns a shareholding of whatever size shall not be invited to participate in tenders for the</td>
</tr>
</tbody>
</table>
(vi) No national preferences may be applied on the basis of the origin of products or labor.
(vii) Joint venture partners shall be jointly and severally liable for their obligations.
(viii) No "participation fee" shall be required of bidders for the purchase of bidding documents. The only charge shall be equivalent to the cost of producing (copying) the bidding documents.
(ix) In the evaluation of bids, bids may not be rejected where they differ substantially from the estimated prices calculated by the procuring entity, except where the bid prices exceed the available budget. Likewise, in the evaluation of bids, bids may not be rejected simple because the number of bids received is considered to be low.
(x) Rebidding shall not be carried out without prior approval of the Bank.
(xi) Works contracts of more than eighteen (18) months' duration shall include appropriate price adjustment provisions.

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants' Services. The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-based Selection</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Selection based on Consultants' Qualifications</td>
</tr>
<tr>
<td>(d) Single-Source Selection</td>
</tr>
<tr>
<td>(e) Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>
D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (net of VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants’ services, non-consulting services, Training and Incremental Operating Costs under the Project</td>
<td>139,650,000</td>
<td>90%</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>350,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(3) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 2.08(c) of this Agreement</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>140,000,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is December 31, 2019.
SCHEDULE 3

Amortization Schedule

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 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 the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1, 2020</td>
<td>2.78%</td>
</tr>
<tr>
<td>February 1, 2021</td>
<td>2.85%</td>
</tr>
<tr>
<td>August 1, 2021</td>
<td>2.92%</td>
</tr>
<tr>
<td>February 1, 2022</td>
<td>2.99%</td>
</tr>
<tr>
<td>August 1, 2022</td>
<td>3.07%</td>
</tr>
<tr>
<td>February 1, 2023</td>
<td>3.15%</td>
</tr>
<tr>
<td>August 1, 2023</td>
<td>3.22%</td>
</tr>
<tr>
<td>February 1, 2024</td>
<td>3.30%</td>
</tr>
<tr>
<td>August 1, 2024</td>
<td>3.39%</td>
</tr>
<tr>
<td>February 1, 2025</td>
<td>3.47%</td>
</tr>
<tr>
<td>August 1, 2025</td>
<td>3.56%</td>
</tr>
<tr>
<td>February 1, 2026</td>
<td>3.65%</td>
</tr>
<tr>
<td>August 1, 2026</td>
<td>3.74%</td>
</tr>
<tr>
<td>February 1, 2027</td>
<td>3.83%</td>
</tr>
<tr>
<td>August 1, 2027</td>
<td>3.93%</td>
</tr>
<tr>
<td>February 1, 2028</td>
<td>4.03%</td>
</tr>
<tr>
<td>August 1, 2028</td>
<td>4.13%</td>
</tr>
<tr>
<td>February 1, 2029</td>
<td>4.23%</td>
</tr>
<tr>
<td>August 1, 2029</td>
<td>4.34%</td>
</tr>
<tr>
<td>February 1, 2030</td>
<td>4.44%</td>
</tr>
<tr>
<td>August 1, 2030</td>
<td>4.56%</td>
</tr>
<tr>
<td>February 1, 2031</td>
<td>4.67%</td>
</tr>
<tr>
<td>August 1, 2031</td>
<td>4.79%</td>
</tr>
<tr>
<td>February 1, 2032</td>
<td>4.91%</td>
</tr>
<tr>
<td>August 1, 2032</td>
<td>5.03%</td>
</tr>
<tr>
<td>February 1, 2033</td>
<td>5.02%</td>
</tr>
</tbody>
</table>
2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

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

3. (a) Amounts of the Loan withdrawn 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.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

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

5. If the Withdrawn Loan Balance is 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 4

Amendment to the Original Loan Agreement and Financing Agreement

1. The Borrower and Bank hereby agree to amend the Original Loan Agreement as follows:

(a) All references to the term “ARS” are hereby replaced by the term “Azeravtoyol OJSC”.

(b) Section 4.01 is hereby replaced in its entirety by Section 4.01 of this Agreement.

(c) Schedule 1 is hereby replaced in its entirety by Schedule 1 to this Agreement.

(d) Section I.A.5 of Schedule 2 is hereby amended to read as follows:

“5. The Borrower shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, six (6) months as of the completion of the works for upgrading the Baku-Shamakhi and Yenikend-Shorsulu roads under Part A of the Project, a report on the execution of such works and the related plan on operations and maintenance of the Baku-Shamakhi and Yenikend-Shorsulu roads”.

(e) Section I.D.1 of Schedule 2 is hereby amended to read as follows:

“The Borrower shall ensure that the Project is carried out in accordance with the provisions of the EMF, EIA(s), Regional Environmental Review, EMP(s), RPF and RAP(s). The Borrower shall not assign, amend, abrogate or waive the EMF, EIA(s), Regional Environmental Review, EMP(s), RPF and/or RAP(s) or any provision thereof, without the prior approval of the Bank.”

(f) The Project closing date is extended until December 31, 2019.

(g) The following definitions in Section I of the Appendix are hereby added to read as follows:

(i) “Additional Financing Agreement” means the agreement between the Borrower and the Bank for purposes of providing the Additional Financing for the Project.”

(ii) “Azeravtoyol” means Azeravtoyol Open Joint-stock Company, which is also the Project Implementing Entity, established as an Open Joint-stock Company by virtue of the Presidential Decree on the Measures to Improve Management
(iii) “Regional Environmental Review” means the Borrower’s document prepared to provide information on key environmental and socio-economic risks and issues in the Project area and in the region as a whole, which were further detailed and addressed in the site-specific EIAs, dated August 1, 2005 and updated on June 1, 2009.”

(h) The following definitions in Section I of the Appendix are hereby amended to read as follows:


(iii) “EIA(s)” means the Borrower’s environmental impact assessments, acceptable to the Bank consisting of *inter alia*: (i) a description of the site where construction activities are to be carried out under Part A of the Project and the justification for said activities; (ii) the actual or potential environmental impact of the construction activities referred to under sub-paragraph (i) above; and (iii) an environmental management plan setting forth adequate mitigating measures and systems required to monitor the implementation of the construction activities referred to under sub-paragraph (i) above and to ensure compliance of such activities with said measures with a view to limiting any actual and potential adverse environmental impact.

(iv) “EMF” means the Environmental Management Framework, dated November 16, 2005, and updated on November 18, 2015, outlining the procedures for the environmental screening, management, consultation and disclosure related to the selection of the road sections under the Project.

(v) “Operational Manual” means the operational manual for the Project adopted by the Borrower and Azeravtoyol OJSC acceptable to the Bank, outlining, *inter alia*, the institutional,
disbursement, procurement, and environmental and social management arrangements (including the EMF, Regional Environmental Review, RPF and EIA(s)) for the implementation of the Project, as the same may be amended from time to time with approval of the Bank, and such term includes any schedules to the Operational Manual.


(vii) "RPF" means the Resettlement Policy Framework, dated February 5, 2010, and updated on November 24, 2015, defining the modalities for land acquisition, resettlement and rehabilitation of displaced persons under Part A and B.3 of the Project and describing the policies, procedures, plans and actions (including the preparation of resettlement action plans, as needed), and institutional measures related to land acquisition and other social impacts that may arise during the Project and other phases related to the Project, and satisfactory to the Bank.

(viii) "Subsidiary Agreement" means the agreement referred to in Section I.B of Schedule 2 to this Agreement, as amended pursuant to Section I.2.(a) of Schedule 2 to the Additional Financing Agreement, pursuant to which the Borrower shall make the proceeds of the Loan available to the Azeravtoyol OJSC.

(i) The definition of the term "ARS" is hereby deleted.

2. The Republic of Azerbaijan and the Association hereby agree to amend the Financing Agreement as follows:

(a) All references to the term "ARS" are hereby replaced by the term "Azeravtoyol OJSC".

(b) Section 4.01 is hereby replaced in its entirety by Section 4.01 of this Agreement.

(c) Schedule 1 is hereby replaced in its entirety by Schedule 1 to this Agreement.

(d) Section I.D.1 of Schedule 2 is hereby amended to read as follows:

"The Recipient shall ensure that the Project is carried out in accordance with the provisions of the EMF, EIA(s), Regional Environmental Review, EMP(s), RPF and RAP(s). The
Recipient shall not assign, amend, abrogate or waive the EMF, EIA(s), Regional Environmental Review, EMP(s), RPF and/or RAP(s) or any provision thereof, without the prior approval of the Association.

(e) The Project closing date is extended until December 31, 2019.

(f) The following definitions in Section I of the Appendix are hereby added to read as follows:

(i) “Azeravtoyol” means Azeravtoyol Open Joint-stock Company, which is also the Project Implementing Entity, established as an Open Joint-stock Company by virtue of the Presidential Decree on the Measures to Improve Management of Transport and Road Complex (Decree No. 1992), dated February 22, 2007, as amended by Decree No. 1659, dated December 28, 2015, and Decree No. 826, dated March 9, 2016.”

(ii) “Regional Environmental Review” means the Recipient’s document prepared to provide information on key environmental and socio-economic risks and issues in the Project area and in the region as a whole, which were further detailed and addressed in the site-specific EIAs, dated August 1, 2005 and updated on June 1, 2009.”

(g) The following definitions in Section I of the Appendix are hereby amended to read as follows:


(iii) “EIA(s)” means the Recipient’s environmental impact assessments, acceptable to the Association consisting of inter alia: (i) a description of the site where construction activities are to be carried out under Part A of the Project and the justification for said activities; (ii) the actual or potential environmental impact of the construction activities referred to under sub-paragraph (i) above; and (iii) an environmental management plan setting forth adequate mitigating measures and systems required to monitor the implementation of the construction activities referred to under sub-paragraph (i)
above and to ensure compliance of such activities with said measures with a view to limiting any actual and potential adverse environmental impact.

(iv) "EMF" means the Environmental Management Framework, dated November 16, 2005, and updated on November 18, 2015, outlining the procedures for the environmental screening, management, consultation and disclosure related to the selection of the road sections under the Project.

(v) "Operational Manual" means the operational manual for the Project adopted by the Recipient and Azeravtoyol OJSC acceptable to the Association, outlining, *inter alia*, the institutional, disbursement, procurement, and environmental and social management arrangements (including the EMF, Regional Environmental Review, RPF and EIA(s)) for the implementation of the Project, as the same may be amended from time to time with approval of the Association, and such term includes any schedules to the Operational Manual.

(vii) "RPF" means the Resettlement Policy Framework, dated February 5, 2010, and updated on November 24, 2015, defining the modalities for land acquisition, resettlement and rehabilitation of displaced persons under Part A and B.3 of the Project and describing the policies, procedures, plans and actions (including the preparation of resettlement action plans, as needed), and institutional measures related to land acquisition and other social impacts that may arise during the Project and other phases related to the Project, and satisfactory to the Association.

(h) The definition of the term "ARS" is hereby deleted.
APPENDIX

Section I. Definitions

1. "Azeravtoyol" means Azeravtoyol Open Joint-stock Company, which is also the Project Implementing Entity, established as an Open Joint-stock Company by virtue of the Presidential Decree on the Measures to Improve Management of Transport and Road Complex (Decree No. 1992), dated February 22, 2007, as amended by Decree No. 1659, dated December 28, 2015, and Decree No. 826, dated March 9, 2016.

2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


4. “EIA(s)” means the Borrower’s environmental impact assessments, acceptable to the Bank consisting of inter alia: (i) a description of the site where construction activities are to be carried out under Part A of the Project and the justification for said activities; (ii) the actual or potential environmental impact of the construction activities referred to under sub-paragraph (i) above; and (iii) an environmental management plan setting forth adequate mitigating measures and systems required to monitor the implementation of the construction activities referred to under sub-paragraph (i) above and to ensure compliance of such activities with said measures with a view to limiting any actual and potential adverse environmental impact.

5. “EMF” means the Environmental Management Framework, dated November 16, 2005, and updated on November 18, 2015, outlining the procedures for the environmental screening, management, consultation and disclosure related to the selection of the road sections under the Project.


7. “Incremental Operating Costs” means the incremental expenses incurred by the PIU on account of reasonable and necessary activities directly related to the Project implementation, management and monitoring, including office supplies, travel and salaries, but excluding the salaries of the civil servants, and any other expenditures that may be agreed upon by the Bank.

8. “Manat” means the currency of the Borrower.

9. “Ministry of Finance” means the Ministry of Finance of the Borrower or any successor or successors thereto.
10. “Operational Manual” means the operational manual for the Project adopted by the Borrower and Azeravtoyol OJSC acceptable to the Bank, outlining, *inter alia*, the institutional, disbursement, procurement, and environmental and social management arrangements (including the EMF, Regional Environmental Review, RPF and EIA(s)) for the implementation of the Project, as the same may be amended from time to time with approval of the Bank, and such term includes any schedules to the Operational Manual.

11. “Original Loan Agreement” means the loan agreement between the Borrower and the Bank for the “Third Highway Project”, dated August 11, 2010, as amended to the date of this Agreement (Loan No 7889-AZ).

12. “PIU” means the Project Implementation Unit as established by the Borrower’s internal order (Order No. 59k) dated August 14, 2003 within the Azeravtoyol OJSC.


14. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 22, 2016 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

15. “Regional Environmental Review” means the Borrower’s document prepared to provide information on key environmental and socio-economic risks and issues in the Project area and in the region as a whole, which were further detailed and addressed in the site-specific EIAs, dated August 1, 2005 and updated on June 1, 2009.

16. “RPF” means the Resettlement Policy Framework, dated February 5, 2010, and updated on November 24, 2015, defining the modalities for land acquisition, resettlement and rehabilitation of displaced persons under Part A of the Project and describing the policies, procedures, plans and actions (including the resettlement action plan), and institutional measures related to land acquisition and other social impacts that may arise during the Project and other phases related to the Project, and satisfactory to the Bank.

17. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to the Original Loan Agreement.

18. “Training” means the following: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consulting training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph.
Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.

2. Section 3.01. (Front-end Fee) is modified to read as follows:

"Section 3.01. Front-end Fee; Commitment Charge

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."

3. In the Appendix, Definitions, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.

4. The Appendix is modified by inserting a new paragraph 19 with the following definition of “Commitment Charge”, and renumbering the subsequent paragraphs accordingly:

“19. “Commitment Charge” means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b).”

5. In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of “Front-end Fee” is modified by replacing the reference to Section 3.01 with Section 3.01 (a).

6. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“68. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early
termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

7. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.