

**OFFICIAL
DOCUMENTS**

LOAN NUMBER 8429-AL

Project Agreement

(Albania Power Recovery Project)

between

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

and

OPERATORI I SHPERNDARJES SE ENERJISE ELEKTRIKE

Dated *NOVEMBER 3*, 2014

PROJECT AGREEMENT

Agreement dated *NOVEMBER 3*, 2014, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and OPERATORI I SHPERNDARJES SE ENERGJISE ELEKTRIKE (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between the Republic of Albania (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan 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 Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out Part 2 of the Project (its Respective Part) in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is the Administrator.
- 3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

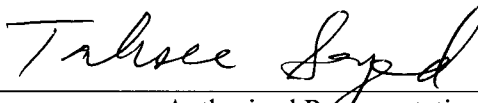
3.03. The Project Implementing Entity's Address is:

Operatori i Shperndarjes se Energjise Elektrike
"Andon Zako Cajupi" Str.
Pallati CONAD, Kati 3
Tirana, Shqiperi

AGREED at Tirana, Republic of Albania, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT

By



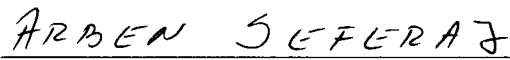
Authorized Representative

Name: TAHSEEN SAYED

Title: COUNTRY MANAGER

OPERATORI I SHPERNDARJES SE ENERGIJE
ELEKTRIKE

By



Authorized Representative

Name: Arben Seferaj

Title: ADMINISTRATOR

SCHEDULE

Execution of the Project Implementing Entity's Respective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall establish and thereafter maintain throughout the implementation of the Project, a PIU with key staff including a project coordinator, procurement specialist, financial management specialist and other needed technical specialists with functions and responsibilities acceptable to the Bank.
2. The PIU shall be responsible for the day to day implementation of the Project Implementing Entities Respective Part of the Project, including preparation and submission of the relevant budget to the PMU for processing.

B. Additional Agreement

1. Subsidiary Loan Agreement

- (a) To facilitate the carrying out of the Project Implementing Entity's Respective Part of the Project, the Project Implementing Entity shall borrow from the Borrower the proceeds of the Loan allocated to Part 2 of the Project under a subsidiary agreement ("Subsidiary Loan Agreement") between the Borrower and the Project Implementing Entity, under terms and conditions approved by the Bank, including the following:
 - (i) the proceeds of the Subsidiary Loan Agreement shall be denominated and repayable in LEK;
 - (ii) the Borrower shall charge interest on the principal amount withdrawn and outstanding from time to time at the rate of three quarters of one percent (0.75%) per annum;
 - (iii) the Subsidiary Loan shall be repayable over a period not exceeding twenty-two and a half (22.5) years from the date of the Subsidiary Loan Agreement, inclusive of a grace period not exceeding seven (7) years; and
 - (iv) the Project Implementing Entity shall provide ten percent (10%) of the financing required for the implementation of the value of the contract under Category 2, set forth in the table in Section V of Schedule 2 to the Loan Agreement.

- (b) The Project Implementing Entity shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree in writing, the Project Implementing Entity shall not assign, amend, abrogate or waive any Subsidiary Loan Agreement or any of its provisions.

2. Power Service Contracts

- (a) The Project Implementing Entity shall, not later than October 30, 2014, enter into the following Power Service Contracts satisfactory to the Bank: (i) with KESh to set out the obligation of the Project Implementing Entity to purchase power generated by KESh; and (ii) with OST to set out the obligation of OST to transmit power purchased by the Project Implementing Entity.
- (b) The Project Implementing Entity shall ensure that all Power Service Contracts to which it is a signatory include information on: (i) daily scheduling, deviations and accounting; (ii) monthly energy balance; (iii) monthly energy and financial settlement based on methodology monitored and established by the market operator and OST; and (iv) the monthly payments and guarantees through commercial banks.
- (c) The Project Implementing Entity shall not assign, amend, abrogate or waive of any of the provisions of its Power Service Contracts without the Borrower's and the Bank's prior approval in writing.

C. Anti-Corruption

The Project Implementing Entity shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

- 1. The Project Implementing Entity shall ensure that the Project is carried out in accordance with the Safeguard Frameworks and Safeguard Instruments. To that end, the Project Implementing Entity shall ensure that the following actions are taken in a manner acceptable to the Bank:
 - (a) if any Project activity, pursuant to the Environmental and Social Management Framework ("ESMF"):
 - (i) requires the carrying out of an Environmental and Social Impact Assessment ("ESIA"), that an ESIA for such activity is: (A)

carried out, in accordance with the requirements of the ESMF and furnished to the Bank for review and approval; and (B) disclosed as required by the ESMF and approved by the Bank, and

- (ii) requires the preparation of an Environmental and Social Management Plan (“ESMP”), that an ESMP is: (A) prepared in accordance with the ESMF and furnished to the Bank for review and approval; and (B) disclosed as required by the ESMF and approved by the Bank; and
- (b) if a Resettlement Action Plan (“RAP”) is required for any Project activity under the Project Implementing Entity’s Respective Part of the Project, on the basis of the Resettlement Policy Framework (“RPF”):
 - (i) that said RAP shall be prepared in accordance with the requirements of the RPF, disclosed locally and furnished to the Bank for review and approval; and
 - (ii) that no works under said activity shall be commenced until all measures required to be taken under said RAP prior to the initiation of said works have been taken.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports for its Respective Part of the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later than two weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
2. The Project Implementing Entity shall provide to the Borrower not later than [four months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the General Conditions, all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied

accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to its Respective Part of the Project.

2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six month after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

Section III. Procurement

All goods and services required for the Project Implementing Entity's Respective Part of the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

Section IV. Other Undertakings

A. Debt Service Ratio

1. The Project Implementing Entity shall ensure that a reasonable forecast of its net revenues and expenditures demonstrates that the ratio of estimated net revenue and debt service requirements is as follows: (a) within thirty-six (36) months of the Effective Date, six tenths (0.6); (b) within the subsequent thirty-six months, at least one (1.0); and (c) thereafter, one and six tenths (1.6).
2. For the purposes of this Section:
 - (a) The term "debt" means any indebtedness of the Project Implementing Entity maturing by its terms more than one year after the date on which it is originally incurred.
 - (b) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (c) The term "net revenues" means the difference between:

- (i) the sum of revenues from all sources related to operations and net non-operating income; and
 - (ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (d) The term “net non-operating income” means the difference between:
- (i) revenues from all sources other than those related to operations; and
 - (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.
- (e) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (f) The term “reasonable forecast” means a forecast prepared by the Project Implementing Entities not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Implementing Entities.
- (g) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

B. Revenue Escrow Account

1. The Project Implementing Entity shall, not later than December 31, 2014, open a Revenue Escrow Account in a financial institution satisfactory to the Bank and deposit therein, on each 20th day of the month, its monthly revenues to pay for the following costs in accordance with the following schedule:

- (a) pay eighty-five percent (85%) of the monthly energy purchase invoice to KESh and eighty-five percent (85%) of the monthly transmission fee invoice to OST for the first twelve (12) months; and pay ninety-five percent (95%) of the monthly energy purchase invoice to KESh and ninety-five percent (95%) of the monthly transmission fee invoice to OST for the next twenty-four (24) months;
 - (b) pay one hundred percent (100%) of the monthly energy purchase invoice from KESh and one hundred percent (100%) of the monthly transmission fee invoice to OST within the subsequent thirty-six (36) months; and
 - (c) pay one hundred and five percent (105%) of the monthly energy purchase invoice from KESh and one hundred and five percent (105%) of the monthly transmission fees invoice from OST until such time as the revenue arrears of the Project Implementing Entity is fully amortized.
2. The Project Implementing Entity shall ensure that in setting up the Revenue Escrow Account, any funds remaining after its financial obligations are met are transferred to a specified account on a monthly basis.
3. The Project Implementing Entity shall ensure that the Revenue Escrow Account is subject to an annual audit satisfactory to the Bank.

C. Business Plan

The Project Implementing Entity shall, not later than December 31st of each year, prepare and submit to the Bank and the Borrower, a five year business plan including associated financial projections, in form and substance satisfactory to the Bank.

D. Debt Service Obligations and Restructuring

The Project Implementing Entity shall: (i) take all measures to ensure that all of its debt service obligations are met; (ii) inform and consult with the Bank on any proposed restructuring; and (iii) only undertake such restructuring as shall have been agreed in writing with the Bank.