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LOAN NUMBER 3096-PAK

LOAN AGREEMENT  
(Ordinary Operations)

(Power Distribution Enhancement Investment Program - Project 4)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 30 April 2014

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PAK 38456

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 30 April 2014 between the ISLAMIC REPUBLIC OF PAKISTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 8 July 2008 between the Borrower and ADB, ADB has agreed to provide a multitranches financing facility to the Borrower for purposes of financing projects under the Power Distribution Enhancement Investment Program;

(B) by a periodic financing request dated 31 October 2013, 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 Project will be implemented by 8 power distribution companies, namely Faisalabad Electric Supply Company Limited, Gujranwala Electric Power Company Limited, Hyderabad Electric Supply Company Limited, Islamabad Electric Supply Company Limited, Lahore Electric Supply Company Limited, Multan Electric Power Company Limited, Peshawar Electric Supply Company Limited, and Quetta Electric Supply Company Limited, and, for this purpose, the Borrower shall make available to the DISCO the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; the Project activities shall be coordinated by Pakistan Electric Power Company (Private) Limited ("PEPCO"), the executing agency for the Investment Program; 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 and in the Project Agreement of even date herewith between ADB and the DISCO;

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 2.01(50) is deleted and the following is substituted therefor:

"Project Agreement" means the Project Agreement of even date herewith between ADB and the DISCO.

- (b) The term "Project Executing Agency" appearing in Section 7.04(b), 9.01(d), 9.01(f), 9.01(k), 10.01(c) and 10.02(c) of the Loan Regulations shall be substituted by the term "DISCO".
- (c) Section 3.03 is deleted and the following is substituted therefor:

**Commitment Charge; Credit; Maturity Premium.** (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.

(c) The Borrower shall pay a maturity premium at the rate specified in the Loan Agreement, which maturity premium shall remain fixed for the term of the Loan. ADB shall add the maturity premium to the interest payable by the Borrower.

- (d) 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.

- (e) 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) "DISCO" refers to FESCO, GEPCO, HESCO, IESCO, LESCO, MEPCO, PESCO and QESCO, both individually and collectively;

(b) "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;

(c) "FAM" means the Facility administration manual updated for the Project dated 2 December 2013 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;

(d) "FESCO" means Faisalabad Electric Supply Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

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

(f) "GEPCO" means Gujranwala Electric Power Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

(g) "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;

(h) "HESCO" means Hyderabad Electric Supply Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

(i) "IESCO" means Islamabad Electric Supply Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

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

(k) "IPPF" means the indigenous peoples planning framework for the Investment Program, including any update thereto, agreed between the Borrower and ADB and incorporated by reference in the FFA;

(l) "LESCO" means Lahore Electric Supply Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

(m) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2012, as amended from time to time);

(n) "MEPCO" means Multan Electric Power Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

(o) "NEPRA" means the National Electric Power Regulatory Authority of the Borrower, or any successor thereto;

(p) "PEPCO" means Pakistan Electric Power Company (Private) Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

(q) "PESCO" means Peshawar Electric Supply Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

(r) "Procurement Guidelines" means ADB's Procurement Guidelines (2013, as amended from time to time);

(s) "Procurement Plan" means the procurement plan for the Project dated 2 December 2013 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines and other arrangements agreed with ADB;

(t) "Project Area" means the areas of the DISCO operations under respective licenses issued in the territory of the Borrower;

(u) "Project facilities" means the transformers, substations, and other equipment and facilities to be improved and/or provided under the Project;

(v) "QESCO" means Quetta Electric Supply Company Limited incorporated under the Borrower's Companies Ordinance, 1984 or any successor thereto acceptable to ADB;

(w) "Relending Agreement" means any of the agreements between the Borrower and a DISCO referred to in Section 3.01(a) of this Loan Agreement;

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

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

(z) "Subproject" means a subproject of the Project; and

(aa) "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.

## ARTICLE II

### The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of one hundred sixty seven million two hundred thousand Dollars (\$167,200,000), 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;
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.20% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium 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 1 June and 1 December 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. (a) The Borrower shall relend the proceeds of the Loan to each DISCO under a Relending Agreement upon terms and conditions satisfactory to ADB.

(b) The Borrower shall cause each DISCO to apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project 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 2017 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 each DISCO to carry out the Project 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 and the Project Agreement.



Section 4.02. The Borrower shall make available, or cause to be made available, promptly as needed, 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.

Section 4.03. 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 4.04. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.05. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

Section 4.06. The Borrower shall take all actions which shall be necessary on its part to enable each DISCO to perform its obligations under the Project Agreement, including the establishment and maintenance of tariffs as stipulated in paragraph 10 of Schedule 5 to this Loan Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.07. (a) The Borrower shall exercise its rights under the Relending Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Relending Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

## ARTICLE V

### **Suspension; Acceleration of Maturity**

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: the Borrower or a DISCO shall have failed to perform any of its obligations under a Relending Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

**ARTICLE VI****Effectiveness**

Section 6.01. 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 VII****Miscellaneous**

Section 7.01. The Secretary, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

**For the Borrower**

Secretary  
Economic Affairs Division  
Ministry of Finance, Revenue, Economic Affairs, Statistics and  
Privatization  
Government of Pakistan  
Islamabad, Pakistan

Facsimile Number:

(92-51) 920-4086  
(92-51) 920-2019

**For ADB**

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

Facsimile Numbers:

(632) 636-2444  
(632) 636-2428.

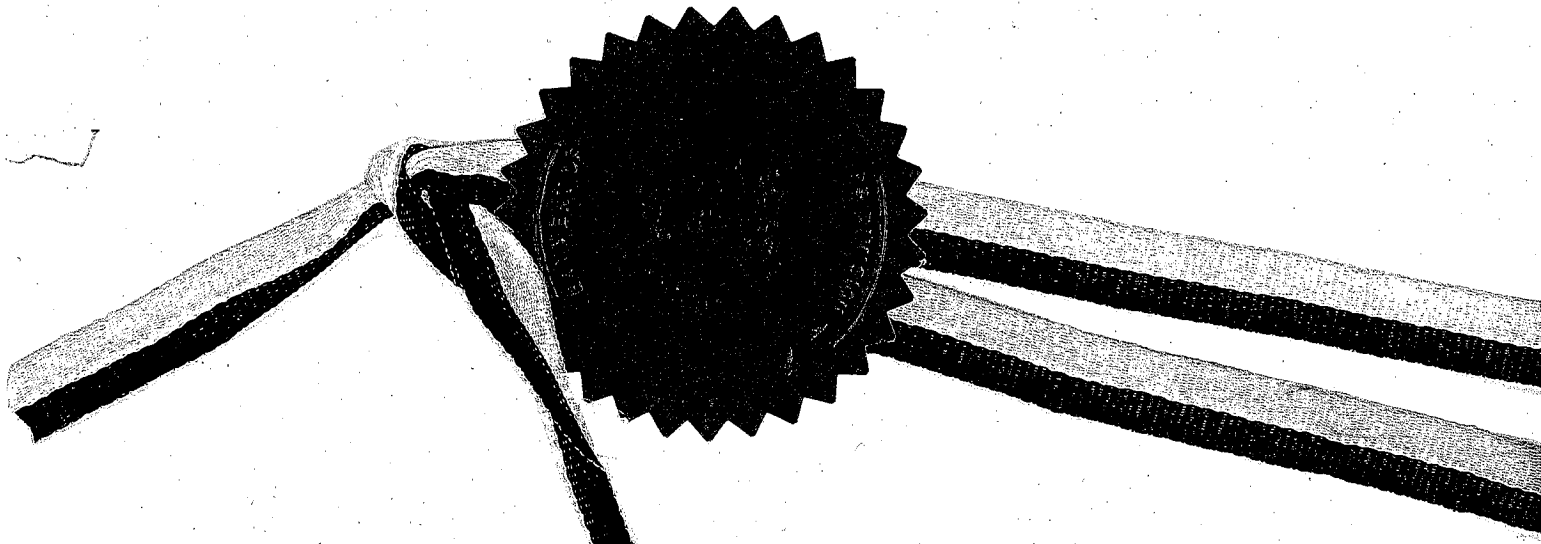
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

ISLAMIC REPUBLIC OF PAKISTAN

By Naig Selhi  
Authorized Representative

ASIAN DEVELOPMENT BANK

By Abner Lopez  
Authorized Representative



## SCHEDULE 1

### Description of the Project

1. The objective of the Investment Program is to provide adequate and reliable power supply to a greater number of industrial, commercial and residential customers.
2. As a part of the Investment Program, the Project aims to reduce the overloading and increase the capacity of the power distribution system in the Project Area through system augmentation and expansion.
3. The Project shall comprise:
  - (a) the augmentation and extension of 132 kilovolt power transformers at existing substations of the secondary transmission grid to add up to 5,021 megavolt amperes of transformer capacity to that grid;
  - (b) the replacement of overloaded distribution transformers with transformers of higher capacity, and the installation of additional distribution transformer capacity on 11 kilovolt feeders, to add up to 82,500 kilovolt amperes of transformer capacity to the distribution grid; and
  - (c) the provision of up to 13 spare power transformers for emergencies.
4. The Project is expected to be completed by 31 December 2016.

**SCHEDULE 2**

**Amortization Schedule**

**(Power Distribution Enhancement Investment Program - Project 4)**

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>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
1 June 2019	2.500000
1 December 2019	2.500000
1 June 2020	2.500000
1 December 2020	2.500000
1 June 2021	2.500000
1 December 2021	2.500000
1 June 2022	2.500000
1 December 2022	2.500000
1 June 2023	2.500000
1 December 2023	2.500000
1 June 2024	2.500000
1 December 2024	2.500000
1 June 2025	2.500000
1 December 2025	2.500000
1 June 2026	2.500000
1 December 2026	2.500000
1 June 2027	2.500000
1 December 2027	2.500000
1 June 2028	2.500000
1 December 2028	2.500000
1 June 2029	2.500000
1 December 2029	2.500000
1 June 2030	2.500000
1 December 2030	2.500000
1 June 2031	2.500000
1 December 2031	2.500000
1 June 2032	2.500000
1 December 2032	2.500000

Schedule 2

1 June 2033	2.500000
1 December 2033	2.500000
1 June 2034	2.500000
1 December 2034	2.500000
1 June 2035	2.500000
1 December 2035	2.500000
1 June 2036	2.500000
1 December 2036	2.500000
1 June 2037	2.500000
1 December 2037	2.500000
1 June 2038	2.500000
1 December 2038	2.500000
<b>Total</b>	<b>100.000000</b>

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 9 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 for reimbursement of 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 Goods and Works, subject to a maximum amount equivalent to 20% of the Loan amount.

Condition for Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for Categories 1 to 8 until ADB has received the respective Relending Agreement executed between the Borrower and the respective DISCO in a form and substance satisfactory to ADB.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Power Distribution Enhancement Investment Program – Project 4)				
Number	Item	Total Amount Allocated for ADB Financing (\$)		Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	<b>FESCO</b>	15,860,000		
1A	Equipment and Materials**		12,320,000	100% of total expenditure claimed*
1B	Civil Works**		780,000	100% of total expenditure claimed*
1C	Unallocated		2,760,000	
2	<b>GEPCO</b>	8,730,000		
2A	Equipment and Materials**		6,830,000	100% of total expenditure claimed*
2B	Civil Works**		400,000	100% of total expenditure claimed*
2C	Unallocated		1,500,000	
3	<b>HESCO</b>	11,000,000		
3A	Equipment and Materials**		8,540,000	100% of total expenditure claimed*
3B	Civil Works**		560,000	100% of total expenditure claimed*
3C	Unallocated		1,900,000	
4	<b>IESCO</b>	17,810,000		
4A	Equipment and Materials**		13,850,000	100% of total expenditure claimed*
4B	Civil Works**			100% of total expenditure

## Attachment to Schedule 3

			900,000	claimed*
4C	Unallocated		3,060,000	
5	<b>LESCO</b>	41,540,000		
5A	Equipment and Materials**		32,190,000	100% of total expenditure claimed*
5B	Civil Works**		2,190,000	100% of total expenditure claimed*
5C	Unallocated		7,160,000	
6	<b>MEPCO</b>	31,820,000		
6A	Equipment and Materials**		24,720,000	100% of total expenditure claimed*
6B	Civil Works**		1,680,000	100% of total expenditure claimed*
6C	Unallocated		5,420,000	
7	<b>PESCO</b>	23,950,000		
7A	Equipment and Materials**		18,640,000	100% of total expenditure claimed*
7B	Civil Works**		980,000	100% of total expenditure claimed*
7C	Unallocated		4,330,000	
8	<b>QESCO</b>	10,350,000		
8A	Equipment and Materials**		8,000,000	100% of total expenditure claimed*
8B	Civil Works**		560,000	100% of total expenditure claimed*
8C				

Attachment to Schedule 3

	Unallocated		1,790,000	
9	Interest and Commitment Charge	6,140,000		100% of amount due
	Total	167,200,000		

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

\*\*Subject to the condition for withdrawal described in paragraph 7 of Schedule 3.

**SCHEDULE 4****Procurement of Goods and Works**General

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

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;
  - (b) National Competitive Bidding; and
  - (c) Shopping.

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.

Domestic Preference

5. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods, which include equipment and materials that are procured as discrete items under a single responsibility or turnkey Works contract.

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.

Industrial or Intellectual Property Rights

7. (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.

ADB's Review of Procurement Decisions

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

9. 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).

10. 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.

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

**SCHEDULE 5****Execution of Project; Financial Matters**Policy Dialogue

1. The Borrower shall ensure that ADB is kept informed about the Borrower's policies and programs related to the power sector that will materially affect the financial viability of the DISCO and the Project and, in particular, the power generation and transmission policies and program, as well as the power distribution policies and program.

Implementation Arrangements

2. The Borrower shall ensure, and shall cause the DISCO to 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 or the Project Agreement, the provisions of this Loan Agreement or the Project Agreement shall prevail.

3. The Borrower shall ensure that the DISCO will engage a private auditor, whose qualifications, experience and terms of reference are acceptable to ADB, to conduct the audit on all financial statements to be submitted to ADB under this Loan Agreement notwithstanding anything in this Loan Agreement to the contrary, and that in general the DISCO will comply with all of the requirements of ADB regarding the auditing of financial statements. The Borrower shall ensure, and shall cause the DISCO to ensure, that proper accounts and records are maintained in a timely manner to adequately identify the use of the proceeds of the Loan in such a manner and with such details as may be specified in this Loan Agreement and in the Project Agreement. The Borrower shall ensure, and shall cause the DISCO to ensure, that their internal controls are in accordance with international standards for auditing or the national equivalent acceptable to ADB and that independent and autonomous internal audit departments are set up within the DISCO.

Safeguards

4. The Borrower shall ensure, and shall cause the DISCO to ensure, that the Project does not have any environmental, indigenous peoples or involuntary resettlement impacts, all within the meaning of the Safeguard Policy Statement. In the event that the Project does have any such impact, the Borrower shall take, and shall cause the DISCO to take, all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower; the Safeguard Policy Statement; and the EARF, RF and/or IPPF as applicable.

Prohibited List of Investments

5. The Borrower shall ensure, and shall cause the DISCO to 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

6. The Borrower shall ensure, and shall cause the DISCO to ensure, that the core labor standards and the Borrower's applicable laws and regulations, including workplace occupational safety norms, are complied with during Project implementation. The DISCO shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, other provider of goods and services and their subcontractors:

- (a) comply with the Borrower's applicable labor law and regulations;
- (b) do not use child labor, within the meaning provided in Appendix 5 of the SPS;
- (c) provide equal opportunity and eliminate discrimination in relation to recruitment, compensation, working conditions and terms of employment for workers (including prohibiting any form of discrimination against women during hiring and providing equal pay for men and women for work of equal value; and to the extent possible, employing women and local people, including disadvantaged people, living in the Project Area, provided that the requirements for efficiency are adequately met);
- (d) do not use forced labor, within the meaning provided in Appendix 5 of the SPS;
- (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 females.

7. The Borrower shall strictly monitor, and shall cause the DISCO to strictly monitor, compliance with the labor standards and provide ADB with regular reports.

Gender and Development

8. The Borrower shall ensure, and shall cause the DISCO to ensure, that the principles of gender equity consistent with ADB's Policy on Gender and Development 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. The Borrower, in coordination with the appropriate agencies, shall ensure, and shall cause the DISCO to ensure, the effective implementation of measures aimed at increasing Project benefits and impacts on women in and around the Project Area.



Counterpart Support

9. The Borrower shall cause the DISCO to ensure the availability and timely release of counterpart funding for the timely implementation of the Subprojects.

Tariffs and Financial Covenants

10. The Borrower shall ensure that the annual tariffs formulated for the DISCO are adequate (a) to cover operating costs, maintenance, depreciation, and financing costs and to allow an acceptable return on the equity of the DISCO; and (b) to maintain the debt-service coverage ratio of at least 1.2 times, and a self-financing ratio of at least 20%, for fiscal year 2015 (i.e. from 1 July 2014 to 30 June 2015) onward. For the purpose of this paragraph, debt service coverage ratio means the division of free cash flow over annual debt service, as defined in ADB's Financial Management and Analysis of Projects Guidelines (2006). Self-financing ratio means the division of cash from internal sources over average annual capital expenditures, expressed as a percentage, as defined in ADB's Financial Management and Analysis of Projects Guidelines (2006). Following a tariff determination by NEPRA, the Borrower shall promptly issue a gazetted notification of the said tariff determination. The Borrower shall ensure that the DISCO will submit annual petitions for tariff revision as required to maintain their financial viability.

11. The Borrower shall ensure that the DISCO will bill all customers directly and in a timely manner for power distribution services rendered. The Borrower shall ensure that all government paying authorities provide prompt payment to the DISCO and, in case of any shortfall from the paying authority, the Borrower shall finance such shortfall in a timely manner.

Governance and Anticorruption

12. The Borrower and the DISCO 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.

13. The Borrower shall ensure, and shall cause the DISCO to 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.

14. The Borrower shall ensure that the DISCO will provide updated information on the Project on the DISCO's website, including information on the performance of the Project, business opportunities, bidding process and guidelines, outcome of biddings and summary progress reports.