
LOAN NUMBER 3096-PAK

PROJECT AGREEMENT

(Power Distribution Enhancement Investment Program - Project 4)

between

ASIAN DEVELOPMENT BANK

and

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

DATED 30 April 2014

PAK 38456

PROJECT AGREEMENT

PROJECT AGREEMENT dated 30 April 2014 between ASIAN DEVELOPMENT BANK ("ADB") on the one part and FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED ("FESCO"), GUJRANWALA ELECTRIC POWER COMPANY LIMITED ("GEPSCO"), HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED ("HESCO"), ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED ("IESCO"), LAHORE ELECTRIC SUPPLY COMPANY LIMITED ("LESCO"), MULTAN ELECTRIC POWER COMPANY LIMITED ("MEPCO"), PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED ("PESCO"), and QUETTA ELECTRIC SUPPLY COMPANY LIMITED ("QESCO") on the other part.

WHEREAS

(A) by a Loan Agreement of even date herewith between the Islamic Republic of Pakistan ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of one hundred sixty seven million two hundred thousand Dollars (\$167,200,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the Loan be made available to FESCO, GEPSCO, HESCO, IESCO, LESCO, MEPCO, PESCO, and QESCO ("DISCO", individually and collectively) and that each DISCO agrees to undertake certain obligations towards ADB set forth herein; and

(B) each DISCO, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined in the Loan Agreement) have the respective meanings therein set forth, except that, for purposes of this Project Agreement, the term "Project" means the subprojects to be carried out by the respective DISCO.

ARTICLE II

Particular Covenants

Section 2.01. (a) Each DISCO shall 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, each DISCO shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to such DISCO, and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. Each DISCO shall make 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 2.03. (a) In the carrying out of the Project, each DISCO shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, each DISCO shall procure all items of expenditures to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to the 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 2.04. Each DISCO shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. Each DISCO shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) Each DISCO shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, each DISCO undertakes to insure, or cause to be insured, the Goods to be imported for the Project against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.

Section 2.06. Each DISCO shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and each DISCO shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) Each DISCO, through PEPCO, shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or its Relending Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and each DISCO shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, the DISCO and the Loan.

Section 2.08. (a) Each DISCO, through PEPCO, shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of the DISCO; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, each DISCO, through PEPCO, shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, each DISCO shall prepare and furnish, through PEPCO, to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by the DISCO of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) Each DISCO shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements for the Project audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Loan proceeds and compliance with the financial covenants of the Loan Agreement) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish, through the Borrower, to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

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

(c) In addition to annual audited financial statements referred to in subsection (a) hereinabove, each DISCO shall (i) provide its annual financial statements prepared in accordance with national accrual-based financing reporting standards acceptable to ADB; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; and (iii) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of

such audited financial statements in the English language and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(d) Each DISCO shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the DISCO and its financial affairs where they relate to the Project with the auditors appointed by the DISCO pursuant to subsections (a)(iii) and (c) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the DISCO, unless the DISCO shall otherwise agree.

Section 2.10. Each DISCO shall enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.

Section 2.11. (a) Each DISCO shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.

(b) Each DISCO shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.

(c) Each DISCO shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.

Section 2.12. Except as ADB may otherwise agree, each DISCO shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, each DISCO shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, each DISCO shall duly perform all its obligations under its Relending Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Relending Agreement.

Section 2.15. Each DISCO shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its charter or license, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. The DISCO shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

ARTICLE III**Effective Date; Termination**

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement comes into force and effect. ADB shall promptly notify the DISCO of such date.

Section 3.02. (a) This Project Agreement and all obligations of the parties hereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Loan Agreement shall terminate in accordance with its terms; or
- (ii) a date 7 years after the date of this Project Agreement.

(b) If the Loan Agreement terminates in accordance with its terms before the date specified in subsection (a)(ii) hereinabove, ADB shall promptly notify the DISCO of this event.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE IV**Miscellaneous**

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

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

Facsimile Numbers:

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

For FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

Chief Executive Officer
West Canal Road, Abdullah Pur
Faisalabad, Pakistan

Facsimile Number:

92 41 922-0233

For GUJRANWALA ELECTRIC POWER COMPANY LIMITED

Chief Executive Officer
Gujranwala Electric Power Company
565-A, Model Town, GT Road
Gujranwala, Pakistan

Facsimile Number:

92 55 9200122

For HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED

Chief Executive Officer
Hyderabad Electric Supply Company
Wapda Office complex, Hussainabad
Hyderabad, Pakistan

Facsimile Number:

92 22 9260361

For ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

Chief Executive Officer
Islamabad Electric Supply Company
Islamabad, Pakistan

Facsimile Number:

92 51 9252893

For LAHORE ELECTRIC SUPPLY COMPANY LIMITED

Chief Executive Officer
Lahore Electric Supply Company
22-A, Queens Road
Lahore, Pakistan

Facsimile Number:

92 42 99204803

For MULTAN ELECTRIC POWER COMPANY LIMITED

Chief Executive Officer
Multan Electric Power Company
MEPCO Complex, Khanewal Road
Multan, Pakistan

Facsimile Numbers:

92 61 9220222
92 61 9220089

For PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED

Chief Executive Officer
Peshawar Electric Supply Company
WAPDA House, Sakhi Chesma, Shami Road
Peshawar, Pakistan

Facsimile Numbers:

92 91 9212024
92 91 9212335

For QUETTA ELECTRIC SUPPLY COMPANY LIMITED

Chief Executive Officer
Quetta Electric Supply Company
Zarghoon Road
Quetta, Pakistan

Facsimile Numbers:

92 81 9202211
92 81 2836554.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of any DISCO may be taken or executed by its Chief Executive Officer or by such other person or persons as he or she shall so designate in writing notified to ADB.

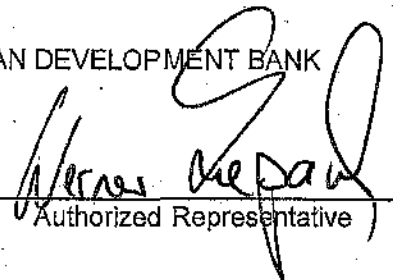
(b) Each DISCO shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

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

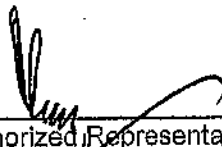
ASIAN DEVELOPMENT BANK

By




Authorized Representative

FAISALABAD ELECTRIC SUPPLY
COMPANY LIMITED

By  _____
Authorized Representative

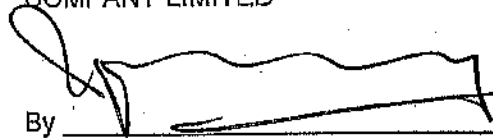
GUJRANWALA ELECTRIC POWER
COMPANY LIMITED

By  _____
Authorized Representative

HYDERABAD ELECTRIC SUPPLY
COMPANY LIMITED

By  _____
Authorized Representative

ISLAMABAD ELECTRIC SUPPLY
COMPANY LIMITED

By  _____
Authorized Representative


LAHORE ELECTRIC SUPPLY
COMPANY LIMITED

By  _____
Authorized Representative

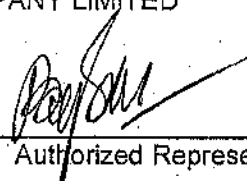
MULTAN ELECTRIC POWER
COMPANY LIMITED

By 
Authorized Representative

PESHAWAR ELECTRIC SUPPLY
COMPANY LIMITED

By 
Authorized Representative

QUETTA ELECTRIC SUPPLY
COMPANY LIMITED

By 
Authorized Representative

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

1. Each DISCO shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the FAM and the Loan Agreement or this Project Agreement, the provisions of the Loan Agreement or this Project Agreement shall prevail.

2. Each DISCO shall 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 the Loan Agreement notwithstanding anything in the Loan Agreement or this Project Agreement to the contrary, and that in general each DISCO will comply with all of the requirements of ADB regarding the auditing of financial statements. Each DISCO shall 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 the Loan Agreement and in this Project Agreement. Each DISCO shall ensure that its internal controls are in accordance with international standards for auditing or the national equivalent acceptable to ADB and that an independent and autonomous internal audit department is set up within the DISCO.

Safeguards

3. Each DISCO shall 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, each DISCO shall 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

4. Each DISCO shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards

5. Each DISCO shall 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;

Schedule

(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.

6. Each DISCO shall strictly monitor compliance with the labor standards and provide ADB with regular reports.

Gender and Development

7. Each DISCO shall 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. Each DISCO shall ensure the effective implementation of measures aimed at increasing Project benefits and impacts on women in and around the Project Area.

Counterpart Support

8. Each DISCO shall ensure the availability and timely release of counterpart funding for the timely implementation of the Subprojects.

Tariffs and Financial Covenants

9. Each DISCO shall 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).

10. Each DISCO shall submit petitions for tariff revision as required to maintain its financial viability.

11. Each DISCO shall bill all customers directly and in a timely manner for power distribution services rendered.

Governance and Anticorruption

12. Each 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. Each DISCO shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

14. Each DISCO shall 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.