ENERGY COMMUNITY OF SOUTH EAST EUROPE PROGRAM

Project Agreement

(Dam Safety Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ALBANIAN POWER CORPORATION (KESH)

Dated July 2, 2008
PROJECT AGREEMENT

Agreement dated July 2, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and ALBANIAN POWER CORPORATION (KESH) ("Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of same date between ALBANIA ("Recipient") and the Association. The Association 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 Financing 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 Financing Agreement or the General Conditions.

ARTICLE II - PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project and the Program. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - TERMINATION

3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE IV - REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is the General Director.
4.02. The Association’s Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INDEVAS
Telex: 248423(MCI)
Facsimile: 1-202-477-6391

Washington, D.C.

4.03. The Project Implementing Entity’s Address is:

Albanian Power Corporation
Blloku Vasil Shanto
Tirana, Albania

Facsimile: 355 422 34501

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Camille Nuamah Authorized Representative

ALBANIAN POWER CORPORATION

By /s/ Gjergji Bojaxhi Authorized Representative
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall maintain a Project Management Unit, responsible for all aspects of implementation of the Project, including procurement, financial management, Project monitoring and evaluation, and management of environmental, social and dam safety issues.

2. The Project Implementing Entity shall ensure that, during the entire life of the Project, the Project Management Unit is operational, adequately staffed, funded and maintained, under terms of reference acceptable to the Association.

B. Anti-Corruption

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

C. Implementation Covenants

1. The Project Implementing Entity shall, not later than June 30, 2009, adopt the Dam Safety Institutional Plan, acceptable to the Association, and shall, thereafter, carry out the Project in accordance with the Dam Safety Institutional Plan.

2. The Project Implementing Entity shall, not later than September 30, 2009, prepare and adopt an Emergency Preparedness Plan, in a manner satisfactory to the Association.

3. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall not incur any debt, unless a reasonable forecast of the revenues and expenditures of the Project Implementing Entity, shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred.

(b) For the purposes of this Section:
(i) The term “debt” means any indebtedness maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) 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 (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term “net revenues” means the difference between:

(A) the sum of revenues from all sources related to operations and net non-operating income; and

(B) 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.

(iv) The term “net non-operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payment if any) of, and interest and other charges on, debt.

(vi) The term “reasonable forecast” means a forecast prepared by the Project Implementing Entity not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Association and the Project Implementing Entity accept as reasonable and as to which the Association has notified the Project Implementing Entity 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 Entity.

(vii) 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 Association.

4. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall produce for each fiscal year after the fiscal year ending on December 31, 2008, funds from internal sources equivalent to not less than thirty-five percent (35%) of the annual average of its capital expenditures incurred or expected to be incurred, for the current, the previous fiscal year and subsequent fiscal year.

(b) By October 15 in each of its fiscal years, commencing in the calendar year 2008, the Project Implementing Entity shall, on the basis of forecasts prepared by the Project Implementing Entity and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association the results of each such review upon its completion.

(c) If any such review shows that the Project Implementing Entity would not meet the requirements set forth in paragraph (a) for the Project Implementing Entity fiscal year covered by such review, the Project Implementing Entity shall promptly take all necessary measures (including, without limitation, proposing adjustments of the structure or levels of its prices) in order to meet such requirements.

(d) For the purpose of this Section:

(i) The term “capita expenditures” means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.
(ii) The term “funds from internal sources” means the difference between:

(A) the sum of revenue from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(iii) The term “net non-operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

5. The Project Implementing Entity shall review, by October 15 of each year commencing in year 2008, its program of proposed capital expenditures for the following five years, and, thereafter, finalize said program, acceptable to the Association.

D. Safeguards

1. The Project Implementing Entity shall carry out the Project in accordance with the Environmental Management Plan and shall not amend, suspend, abrogate, repeal or waive any provision of the Environmental Management Plan without prior approval of the Association.

2. The Project Implementing Entity shall, not later than one (1) month after the Effective Date, appoint, and thereafter maintain, a Panel of Experts with terms of reference acceptable to the Association.
3. Prior to the commencement of procurement activities under Part 1.4 of the Project, the Project Implementing Entity shall prepare a Resettlement Action Plan and update the Environmental Management Plan, if required in the opinion of the Association, and in a manner satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient and the Association not later than two (2) weeks after the end of the period covered by such report.

2. The Project Implementing Entity shall provide to the Recipient not later than June 30, 2013, for incorporation in the report referred to in Section 4.08(c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such 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 Association, 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 the Project.

2. The Project Implementing Entity shall prepare and furnish to the Association and to the Recipient 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 Association.

3. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.
Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.