Project Agreement

(Electricity Distribution and Transmission Improvement Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NATIONAL TRANSMISSION AND DISPATCH COMPANY, LTD.

Dated July 14, 2008
PROJECT AGREEMENT

AGREEMENT dated July 14, 2008, entered into among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"), INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and NATIONAL TRANSMISSION AND DISPATCH COMPANY, LTD. (alternatively "NTDC" or the “Project Implementing Entity”) ("Project Agreement") in connection with the Loan Agreement (”Loan Agreement”) of same date between the ISLAMIC REPUBLIC OF PAKISTAN (“Borrower”) and the Bank, and the Financing Agreement (”Financing Agreement”) of the same date between ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and the Association. The Bank, 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 Loan Agreement and in Section 1.01 of 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 Loan Agreement, the Financing Agreement or the General Conditions (as so respectively defined in the Loan Agreement and the Financing Agreement).

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 Parts B and NTDC’s related activities under Parts C and D of the Project (NTDC’s “Respective Parts of the Project”) in accordance with the provisions of Article V of the Bank’s General Conditions and Article IV of the Association’s General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Parts of the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank, the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Parts 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 NTDC’s Chief Executive Officer.
3.02. The Bank’s and the Association’s Address is:

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

Cable: INTBAFRAD
Telex: 248423(MCI) or 1-202-477-6391
Facsimile: 64145(MCI)

3.03. The Project Implementing Entity’s Address is:

National Transmission and Dispatch Company Ltd.
WAPDA House
Lahore
Pakistan

Phone: (92)-42-9202229 / 9202211
Facsimile: (92)-42-9202053

AGREED at Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yusupha B. Crookes
Authorized Representative

NATIONAL TRANSMISSION AND DISPATCH
COMPANY LTD.

By /s/ Amir ur Rehman
Authorized Representative
SCHEDULE

Execution of the Project Implementing
Entity’s Respective Parts of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. NTDC shall, at all times throughout the implementation of its Respective Parts of the Project:

   (a) (i) be governed in accordance with its Memorandum and Articles of Association, dated November 6, 1998; and

   (ii) refrain from assigning, amending, abrogating, or waiving its Memorandum and Articles of Association, and/or any provision thereof, if, in the opinion of the Bank and the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect NTDC’s ability to implement the Project;

   (b) maintain a Board of Directors with appropriate experience and qualifications, comprising representation from the public and private sector, which Board shall exercise the general oversight of NTDC’s Respective Parts of the Project;

   (c) maintain a unit headed by a Project Director, with experience and qualifications and under terms of reference satisfactory to the Bank and the Association, and provided with sufficient resources and competent staff, in adequate numbers, and under terms of reference and with experience and qualifications acceptable to the Bank and the Association, to be responsible for the day-to-day coordination of the implementation of NTDC’s Respective Parts of the Project; and

   (d) keep the Bank and the Association promptly informed of any changes in membership of either the Board of Directors (including its Chair) and/or the management team referred to in sub-paragraph (c) above, and ensure that any such changes will be made in accordance with procedures set forth in NTDC’s Memorandum and Articles of Association, and in terms satisfactory to the Bank and the Association.

2. NTDC shall maintain throughout the implementation of its Respective Parts of the Project, an environmental unit, headed by a qualified environmental and social specialist satisfactory to the Bank and the Association, to be provided with sufficient resources and competent staff in adequate numbers, and under terms of
reference and with experience and qualifications acceptable to the Bank and the Association, which unit shall be responsible for the carrying out of the environmental monitoring and mitigation, including the regular update of the Environmental and Social Assessment, and the implementation of the Environmental and Social Management Plan.

3. NTDC shall hire, on an annual basis, independent external auditors satisfactory to the Bank and the Association, with terms of reference acceptable to the Bank and the Association, to be responsible for carrying out NTDC’s annual audit and the audits of the NTDC’s Project accounts and Financial Statements. The audit reports shall include the independent auditor’s opinion on NTDC compliance with the financial covenants and reports set forth in this Agreement.

4. NTDC shall carry out its Respective Parts of the Project in accordance with the financial arrangements, policies and procedures set forth in the Financial Management Manual, and shall refrain from assigning, amending, abrogating, or waiving the Financial Management Manual, and/or any provision thereof, without the prior concurrence of the Bank and the Association.

B. Anti-Corruption

NTDC shall ensure that its Respective Parts of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the Procurement Action Plan.

C. Safeguards

1. NTDC shall:

(a) carry out its Respective Parts of the Project in accordance with the principles set forth in the Environmental and Social Guidelines and NTDC’s Environmental and Social Assessment, and the protocols and procedures provided in NTDC’s Environmental and Social Management Plan and Resettlement Action Plan;

(b) on an annual basis, no later than April 30 of each year, update the Environmental and Social Assessment, the Environmental and Social Management Plan and the Resettlement Action Plan, in accordance with the policies, procedures and criteria set forth in the Environmental and Social Guidelines, and furnish each such update to the Bank and the Association for review and approval;

(c) ensure that the implementation of its Environmental and Social Management Plan and Resettlement Action Plan, and/or any updated
thereof, are adequately monitored and supervised throughout Project Implementation; and

(d) neither amend, nor suspend, abrogate or in anyway waive any provision of its Environmental and Social Guidelines, Environmental and Social Management Plan and the Resettlement Action Plan, if, in the opinion of the Bank and the Association, such amendment, suspension, abrogation and waiver might materially and adversely affect the carrying out of NTDC’s Respective Parts of the Project, or the achievement of the objectives of the Environmental and Social Guidelines, the Environmental and Social Management Plan and the Resettlement Action Plan.

2. NTDC shall refrain from commencing any civil works that would give rise to Displaced Persons until NTDC has adequately resettled all such Displaced Persons and/or paid them adequate monetary compensations for any land takings, in accordance with the provisions of NTDC’s Resettlement Action Plan and on terms satisfactory to the Bank and the Association.

3. NTDC shall hire an independent external environmental expert/firm satisfactory to the Bank and the Association, with terms of reference acceptable to the Bank and the Association, to be responsible for carrying out, at least twice during the Project implementation (i.e. prior to its estimated mid-term review, and preceding the preparation of the report provided for in Section II.A.2 below) a third party monitoring, validation and certification of:

(a) NTDC’s appropriate implementation of its Environmental and Social Management Plan and/or its Resettlement Action Plan, as the case may be; and

(b) NTDC’s monitoring of the social impact of Project activities under its Respective Parts of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. NTDC shall monitor and evaluate the progress of its Respective Parts of the Project and prepare Project Reports for its Respective Parts of the Project in accordance with the provisions of Section 5.08(b) of the Bank’s General Conditions and Section 4.08(b) of the Association’s General Conditions and on the basis of the indicators agreed with the Bank and the Association. Each such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Borrower not later one month after the end of the period covered.
by such report for incorporation and forwarding by the Borrower to the Bank and
the Association of the overall Project Report.

2. NTDC shall provide to the Borrower not later than November 30, 2011, for
incorporation in the report referred to in Section 5.08(c) of the Bank’s General
Conditions and Section 4.08(c) of the Association’s General Conditions all such
information as the Borrower, the Bank or the Association shall reasonably
request for the purposes of that Section.

B. Financial Reports and Audits

1. NTDC shall maintain a financial management system and prepare financial
statements in accordance with consistently applied accounting standards
acceptable to the Bank and the Association, both in a manner adequate to reflect
the operations and financial condition of NTDC, including the operations,
resources and expenditures related to NTDC’s Respective Parts of the Project.

2. NTDC shall have its financial statements referred to above audited by
independent auditors acceptable to the Bank and the Association, in accordance
with consistently applied auditing standards acceptable to the Bank and the
Association. Each audit of these financial statements shall cover the period of
one fiscal year of NTDC. The audited financial statements for each period shall
be furnished to the Borrower, the Bank and the Association not later than six
months after the end of the period.

3. Without limitation on the provisions of Part A of this Section and the preceding
paragraph B.2 above, NTDC shall prepare interim un-audited financial reports, in
form and substance satisfactory to the Bank and the Association, covering each
calendar quarter of Project implementation. The interim un-audited financial
report for each such calendar quarter shall be furnished to the Borrower, the Bank
and the Association not later than forty-five (45) days after the end of the
respective calendar quarter.

C. Financial Management Covenants

1. NTDC shall prepare by June 30 of each year, commencing on June 30, 2009, and
furnish to the Borrower, the Bank and the Association for review, a rolling
medium-term financial project report integrating financial, operational and
investment program information (including, \textit{inter alia}, projected income
statements, balance sheets and cash flow statements covering a period of no less
than five (5) years following each such report).

2. (a) Except as the Bank and the Association shall otherwise agree, NTDC
shall not incur any debt, unless the net revenues of NTDC for the fiscal
year immediately preceding the date of such incurrence or for a later
twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least one and one quarter (1.25) times the estimated maximum debt service requirements of NTDC for any succeeding fiscal year on all debt of the NTDC, including the debt to be incurred; and

(b) For the purposes of this paragraph 2:

(i) The term “debt” means any indebtedness of NTDC 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 adjusted to take account of NTDC’s rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate 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 payments, if any) of, and interest and other charges on debt.
(vi) Whenever for the purposes of this provision 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 and the Association.

Section III. Procurement

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