CONFORMED COPY

GRANT NUMBER TF096084

Project Agreement

(Trust Fund for the Rural Electrification Phase I Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as administrator of the Australian Trust Fund for the AusAID Mekong Energy Fund

and

ELECTRICITE DU LAOS

Dated October 1, 2010

PROJECT AGREEMENT

AGREEMENT dated October 1, 2010, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as administrator of the Australian Trust Fund for the AusAID Mekong Energy Fund and ELECTRICITE DU LAOS ("Project Implementing Entity") ("Project Agreement") in connection with the Grant Agreement ("Grant Agreement") of same date between Lao People's Democratic Republic ("Recipient) and the World Bank. The World Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The Standard Conditions (as defined in the Grant 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 Grant Agreement or the Standard Conditions and the following additional terms have the following meanings:

(a) "Fiscal Year" means calendar year;

(b) "Project Office" means the office to be maintained by EdL in accordance with Section I.A.1 of Schedule to this Agreement.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objective of the Project. To this end, the Project Implementing Entity shall carry out its Respective Parts of the Project in accordance with the provisions of Article II of the Standard Conditions and the Grant Agreement, 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 World Bank 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 — TERMINATION

3.01. This Agreement shall terminate on the date determined in accordance with the provisions of Section 6.02 of the Standard Conditions.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity's Representative is the Managing Director, *Electricité du Laos*.

4.02. The World Bank's Address is:

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

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

4.03. The Project Implementing Entity's Address is:

Electricité du Laos
Nongbone Road
P.O. Box 309
Vientiane
Lao People's Democratic Republic

Facsimile:

(856-21) 415 039
(856-21) 416 381

AGREED at Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of the Australian Trust Fund for the AusAID Mekong Energy Fund

By /s/ Keiko Miwa
Authorized Representative

ELECTRICITE DU LAOS

By /s/ Sisavath Thiravong
Authorized Representative

SCHEDULE

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

Section I. Implementation Arrangements

A. Institutional and Project Management Arrangements

1. The Project Implementing Entity shall maintain at its headquarters office, until completion of the Project, the Project Office responsible for overall management of the implementation of its Respective Parts of the Project, including financial management and control, procurement and monitoring and reporting; said Project Office to be staffed with competent personnel in sufficient number, provided with adequate resources, and under the direction of qualified managers, including a Project Manager, supported by two (2) deputy Project Managers, administration officers and an accounting officer, all with qualifications and experience and under terms of reference acceptable to the World Bank.

2. The Project Implementing Entity declares its commitment to the objective of the Project as set forth in Schedule 1 to the Grant Agreement, and, to this end, shall carry out its Respective Parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, electrical utility, and engineering practices, and sound social and environmental standards acceptable to the World Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

3. The Project Implementing Entity shall:

   (a) prepare, on the basis of guidelines acceptable to the World Bank and furnish to the World Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the World Bank and the Project Implementing Entity, a plan for the continued achievement of the objectives of its Respective Parts of the Project, and afford the World Bank a reasonable opportunity to exchange views on said plan;

   (b) duly perform all its obligations under the Subsidiary Financing Agreement. Except as the World Bank shall otherwise agree, the Project Implementing Entity shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Financing Agreement or any provision thereof;

(c) at the request of the World Bank, exchange views with the World Bank with regard to the progress of its Respective Parts of the Project, the performance of its obligations under this Agreement and under the Subsidiary Financing Agreement, and other matters relating to the Grant Agreement;

(d) promptly inform the World Bank of any condition which interferes or threatens to interfere with the progress of its Respective Parts of the Project, the accomplishment of the purposes of the Grant Agreement, or the performance by the Project Implementing Entity of its obligations under this Agreement and under the Subsidiary Financing Agreement;

(e) carry on its operations and conduct its affairs in accordance with sound administrative, technical, electrical utility, engineering, and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers;

(f) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and electrical utility practices; and

(g) take out and maintain with responsible insurers, or make other provision satisfactory to the World Bank for insurance against such risks and in such amounts as shall be consistent with appropriate practice.

B. Anti-Corruption

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

C. Safeguards.

The Project Implementing Entity shall carry out the Project in accordance with the safeguards provisions specified in Section I.D of Schedule 2 to the Grant Agreement, which shall apply to the Project Implementing Entity with the necessary changes.

Section II. <u>Project Monitoring, Reporting and Evaluation</u>

A. Project Reports

1. The Project Implementing Entity 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 2.06 of the Standard Conditions and on the basis of the indicators agreed with the World Bank. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient not later than one (1) month after the end of the period covered by such report for incorporation and forwarding by the Recipient to the World Bank of the overall Project Report.

2. The Project Implementing Entity shall provide to the Recipient not later than three (3) months after the Closing date, for incorporation into the report referred to in Section 2.06 of the Standard Conditions all such information as the Recipient or the World Bank 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 World Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to its Respective Parts of the Project.

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

3. Except as the World Bank may otherwise agree, commencing in its Fiscal Year 2010, 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 the estimated net revenues of the Project Implementing Entity for each Fiscal Year during the term of the debt to be incurred shall be at least one and one third (1/3) times the estimated debt service requirements of the

Project Implementing Entity in such year on all debt of the Project Implementing Entity including the debt to be incurred.

4. Except as the World Bank may otherwise agree, the Project Implementing Entity shall:

(a) produce for each of its Fiscal Years commencing in Fiscal Year 2010, funds from internal sources equivalent to not less than fifteen percent (15%) of the annual average of its capital expenditures incurred or expected to be incurred for that Fiscal Year, the previous Fiscal Year and the following Fiscal Year;

(b) before August 31 in each of its Fiscal Years, commencing in 2010, on the basis of forecasts, expressed in Kips, prepared by the Project Implementing Entity, and satisfactory to the World Bank, review whether it would meet the requirements set forth in sub-paragraph (a) of this Section in respect of such year and the next following Fiscal Year, and shall furnish to the World Bank a copy of such review upon its completion; and

(c) if any such review shows that the Project Implementing Entity would not meet the requirements set forth in subparagraph (a) of this Section, promptly take all necessary measures within its power (including, without limitation, seeking approval for and implementing adjustments of the structure or levels of its electricity rates) in order to meet such requirements.

5. Except as the World Bank may otherwise agree, the Project Implementing Entity shall not incur any debt, if after the incurrence of such debt, the ratio of debt to equity shall be greater than sixty (60) to forty (40).

6. For purposes of Paragraphs 3, 4 and 5 of this Section II.B:

(a) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charges to construction, related to operations.

(b) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(c) The term "current liabilities" means all liabilities which will become due and payable or could under the circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(d) The term "debt" means any indebtedness of the Project Implementing Entity maturing by its terms more than one (1) year after the date on which it is originally incurred.

(e) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or other instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(f) 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.

(g) The term "equity" means the sum of the total of unimpaired paid-up capital, retained earnings and reserves of the Project Implementing Entity not allocated to cover specific liabilities.

(h) The term "funds from internal sources" means the difference between: (i) the sum of revenues from all sources related to operations, net non-operating income and any reduction in working capital other than cash; and (ii) the sum of (A) 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, other cash distribution of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures, and (B) major repair expenditures.

(i) The term "net non-operating income" means the difference between: (i) revenues from all sources other than those related to operations; and (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.

(j) The term "net revenues" means the difference between: (i) the sum of revenues from all sources related to operations and net non-operating income; and (ii) the sum of (A) 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, and (B) dividends and major repair expenditures.

(k) The term "reasonable forecast" means a forecast prepared by the Project Implementing Entity not earlier than four (4) months prior to the incurrence of the debt in question, which both the World Bank, and the Project Implementing Entity accept as reasonable and as to which the World Bank have notified the Project Implementing Entity of its acceptability, provided that no event has occurred since 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.

(l) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each Fiscal Year.

(m) Whenever for the purposes of Paragraphs 3, 4 and 5 of Section II.B., it shall be necessary to value, in terms of the currency of the Lao People's Democratic Republic, 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 World Bank.

Section III. <u>Procurement</u>

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