

Prototype Carbon Fund
Emission Reductions
Purchase Agreement

(Liepaja Solid Waste Management Project)

by and between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT, AS TRUSTEE OF THE
PROTOTYPE CARBON FUND

Dated December 19, 2000

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PROTOTYPE CARBON FUND
EMISSION REDUCTIONS PURCHASE AGREEMENT

This PROTOTYPE CARBON FUND EMISSION REDUCTIONS PURCHASE AGREEMENT (the "Agreement"), dated December 19, 2000, is entered by and between the Republic of Latvia (the "Host Country") and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("IBRD"), not in its individual capacity but as trustee of the Prototype Carbon Fund (the "PCF") pursuant to the Instrument (in such capacity the "Trustee").

WHEREAS:

(A) Pursuant to Resolution No. 99-1 of the Executive Directors of the IBRD dated 20 July 1999, the Prototype Carbon Fund was established for the purposes of (i) demonstrating how project-based transactions in Greenhouse Gas emission reductions can contribute to the sustainable development of developing countries and countries with economies in transition; (ii) sharing the knowledge gained in the course of the PCF's operations with all interested parties; and (iii) demonstrating how the IBRD can work in partnership with the public and private sectors to mobilize new resources for its borrowing member countries while addressing global environmental concerns;

(B) the Host Country has ratified the United Nations Framework Convention on Climate Change (the "UNFCCC") on 23 February 1995, and signed on 14 December 1998 the Protocol that was adopted at the Third Conference of the Parties to the UNFCCC in Kyoto, Japan on 11 December 1997 (the "Kyoto Protocol");

(C) the Host Country, through a letter dated 21 September 1998 from its Ministry of Environmental Protection and Regional Development has endorsed the development of the project defined in Section 1.01 of this Agreement (the "Project") for the purpose of Article 6 of the Kyoto Protocol, and has committed itself to render such assistance as may be necessary in the registration of the Emission Reductions generated by the Project for the purposes of the UNFCCC;

(D) the Baseline and design of the Project has been Validated as set forth in the Validation Report, and the Project is expected to provide a reduction in Greenhouse Gas emissions by sources, that is additional to any that would otherwise occur;

(E) the Project will be carried out by Liepajas RAS, Ltd., a non-profit limited liability company established on February 24, 2000 under the laws of the Republic of Latvia (the "Project Entity"), with the Host Country's assistance;

(F) the Host Country intends to contract from IBRD a loan in a principal amount equal to US\$ 2,220,000 to finance a portion of the costs of the Project on the terms and conditions set forth in an agreement (the "Loan Agreement") to be entered into between the Host Country and IBRD;

(G) the Host Country intends to contract from Nordic Investment Bank a loan in a principal amount equivalent to US\$ 1,500,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the "NIB Loan Agreement") to be entered into between the Host Country and Nordic Investment Bank;

(H) the Host Country intends to contract from the European Union a grant in Euro in an amount equivalent to US\$4,860,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the "EU Financing Memorandum") to be entered into between the Host Country and European Union;

(I) the Host Country intends to contract from the Swedish International Development Agency a grant in Swedish Krone in an amount equivalent to approximately US\$1,180,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the "SIDA Grant Agreement") to be entered into between the Host Country and the Swedish International Development Agency; and

(J) the Host Country, having satisfied itself as to the feasibility and priority of the Project wishes to sell, and the Trustee, based inter alia on the foregoing, wishes to purchase, upon the terms and conditions set forth in this Agreement, Emission Reductions achieved by the Project;

NOW THEREFORE the Parties hereto hereby agree as follows:

Definitions; Interpretation; Headings; Schedules
Definitions

Unless the context otherwise requires, the following capitalized terms shall have the following meanings wherever used in this Agreement and its preamble:

(i) "Additional Emission Reductions" or "AERs" means any and all Emission Reductions generated by the Project during the period from 1 January 2013 to the Project Termination Date, as well as any and all Emission Reductions generated before that period over and above Total MERs;

(ii) "Advance Payment" means the advance granted by the Trustee to the Host Country pursuant to the letter of agreement dated December 18, 2000, signed on behalf of the Trustee and on behalf of the Host Country;

(iii) "Assigned Amount" means the quantity of Greenhouse Gases that the Host Country can release in accordance with Protocol, during the first quantified emission limitation and reduction commitment period that protocol;

(iv) "Baseline" means the situation as described in the Validation Report, that would have occurred without the implementation of the Project, in particular with respect to GHG emissions;

(v) "Certification" means the process by which either (i) if the Parties to the UNFCCC deem it appropriate, an operational entity designated by the COP/MOP for the purposes of Article 6 or in absence thereof (ii) an Independent Third Party appointed by the Trustee, certifies that the reductions in GHG emissions generated by the Project comply with the relevant standards and conditions of the UNFCCC and the Kyoto Protocol as reflected in the Monitoring and Verification Protocol;

(vi) "Commercial Operations" shall have the meaning ascribed thereto in Schedule 1 to this Agreement, as such schedule may be amended from time to time by agreement between the Trustee and the Host Country;

(vii) "COP/MOP" means the Conference of the Parties to the UNFCCC serving as the meeting of the Parties to the Kyoto Protocol;

(viii) "Development and Construction Phase" means the phase of the Project described in part A of Schedule 1 to this Agreement;

(ix) "Effective Date" means the date on which this Agreement shall be effective as provided in Section 10.03 of this Agreement;

(x) "Emission Reductions," or "ERs" means reductions in emissions of Greenhouse Gases generated by the Project in excess of the applicable Baseline that have successfully undergone Certification;

(xi) "EU Financing Memorandum" shall have the meaning described thereto in the preamble to this Agreement;

(xii) "Euro" shall mean the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(xiii) "Final Payment" shall have the meaning ascribed thereto in Section 2.02(b);

(xiv) "First Payment" shall have the meaning ascribed thereto in Section 2.02(b);

(xv) "Greenhouse Gases" or "GHG" means the six gases listed in Annex A to the Kyoto Protocol, which are carbon dioxide, methane, nitrous oxide,

hydrofluorocarbons, perfluorocarbons, and sulphur hexafluoride;

(xvi) "Host Country" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xvii) "IBRD" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xviii) "Independent Third Party" means an entity, such as an environmental auditing company, which is independent from the Trustee, the Host Country and the Project Entity;

(xix) "Initial Verification" shall have the meaning ascribed thereto in Section 5.02(a)(vi) of this Agreement;

(xx) "Instrument" means the Instrument establishing the Prototype Carbon Fund as approved by the Executive Directors of the IBRD on 20 July 1999 by Resolution No. 99-1, as may be amended from time to time;

(xxi) "Kyoto Protocol" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xxii) "LIBOR" means, in respect of any period for which interest is payable, the London interbank offered rate for six-month deposits in US Dollars, expressed as a percentage per annum, that appears on the Relevant Telerate Page as of 11:00 a.m., London time, on the LIBOR Reset Date for said interest period. If such rate does not appear on the Relevant Telerate Page, the Trustee shall request the principal London office of each of four major banks to provide a quotation of the rate at which it offers six-month deposits in US Dollars to leading banks in the London interbank market at approximately 11:00 a.m. London time on the LIBOR Reset Date for said interest period. If at least two such quotations are provided, the rate in respect of said interest period shall be the arithmetic mean (as determined by the Trustee) of the quotations. If less than two quotations are provided as requested, the rate in respect of said interest period shall be the arithmetic mean (as determined by the Trustee) of the rates quoted by four major banks selected by the Trustee in the principal financial center for US Dollars, at approximately 11:00 a.m. in said financial center, on the LIBOR Reset Date for said interest period for loans in US Dollars to leading banks for a period of six months. If less than two of the banks so selected are quoting such rates, LIBOR in respect of said interest period shall be equal to LIBOR in effect for the interest period immediately preceding that period;

(xxiii) "LIBOR Reset Date" means the day two London Banking Days prior to the first day of the relevant period on which interest becomes payable;

(xxiv) "Lien" includes mortgages, pledges, charges, privileges and priorities of any kind;

(xxv) "Loan Agreement" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xxvi) "London Banking Day" means any day on which commercial banks are open for general business (including dealings in Foreign exchange and currency deposits) are open for general business in London;

(xxvii) "Milestone Payment" shall have the meaning ascribed thereto in Section 2.02(b);

(xxviii) "Minimum Emission Reductions" or "MERs" means with respect to any year in the schedule set forth in Section 2.03, the minimum amount of Emission Reductions to be generated by the Project and delivered by the Host Country during such year in accordance with that schedule;

(xxix) "Monitoring" means activities pursuant to which the Project

Entity or another person collects and records data assessing the reductions in emissions of Greenhouse Gases resulting from the Project pursuant to the terms of the Monitoring and Verification Protocol;

(xxx) "Monitoring and Verification Protocol" means the set of requirements incorporated in Schedule 4 to this Agreement, as such schedule may be amended from time to time in accordance with Section 9.06;

(xxxii) "NIB Loan Agreement" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xxxiii) "Parties" means the Host County and the Trustee, and each of them shall be individually referred to as a "Party";

(xxxiiii) "PCF" or "Prototype Carbon Fund" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xxxiv) "PCF Participants" means any or all of the eligible private sector participants or eligible public sector participants that have entered into a participation agreement under the terms of the Instrument, or any assignee thereof pursuant to the terms of the Instrument;

(xxxv) "Project" means the project as described in Schedule 1, relating to the development, financing construction, ownership, operation and maintenance of a solid waste management project in Liepaja, Latvia, and all activities in connection therewith, as the description thereof may be amended from time to time by agreement between the Trustee and the Host Country;

(xxxvi) "Project Entity" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xxxvii) "Project Termination Date" means 31 December 2020;

(xxxviii) "Purchase Account" means the account established with the Trustee on behalf of the PCF for the purposes of this Agreement from which the Trustee is entitled to withdraw funds from time to time in order to effect the payments required hereunder;

(xxxix) "Purchase Price" shall have the meaning ascribed thereto in Section 2.02(a);

(xl) "Relevant Telerate Page" means the display page designated on the Dow Jones Telerate Service as the page for the purpose of displaying LIBOR for deposits in US Dollars (or such other page as may replace such page on such service, or such other service as may be selected by the Trustee as the information vendor, for the purpose of displaying rates or prices comparable to LIBOR);

(xli) "SIDA Grant Agreement" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xlii) "Subsidiary Agreement" shall have the meaning ascribed thereto in Section 5.02;

(xliii) "Swedish Krone" means the lawful currency of the Kingdom of Sweden;

(xliv) "Total Minimum Emission Reductions" or "Total MERs" shall have the meaning ascribed thereto in Section 2.03;

(xlv) "Trustee" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xlvi) "UNFCCC" shall have the meaning ascribed thereto in the preamble to this Agreement;

(xlvii) "US Dollars" and "US\$" each means the lawful currency of the United States of America;

(xlviii) "Validation" or "Validated" means the assessment by an Independent Third Party of the Project design, including its Baseline, before the implementation of the Project;

(xlix) "Validation Report" means the report set forth in Schedule 3 to this agreement, prepared by an Independent Third Party;

(l) "Verification" or "Verified" means the auditing from time to time by an Independent Third Party of the data recorded by the person responsible for Monitoring to verify the amount of Emission Reductions achieved by the Project in relation to its Baseline and the requirements of the Monitoring and Verification Protocol; and

(li) "Verification Report" means a report prepared by an Independent Third Party pursuant to a Verification, which reports the findings of the Verification process and, inter alia, states the amount of reductions in emission of Greenhouse Gases that have been found to have been generated.

Section 1.02 Interpretation; Headings; Schedules

(a) The terms of this Agreement shall be interpreted in a manner that is consistent with the UNFCCC, the Kyoto Protocol, and any decisions, guidelines, modalities, and procedures adopted under the foregoing, and the Instrument, as such instruments may be amended or supplemented from time to time.

(b) All terms defined herein have the meanings assigned to them herein for all purposes, and such meanings are equally applicable to both the singular and plural forms of the terms defined. "Include" "includes" and "including" shall be deemed to be followed by "without limitation" whether or not they are in fact followed by such words or words of like import. "Writing," "written" and comparable terms refer to printing, typing, lithography and other means of reproducing words in a visible form. Any instrument or law defined or referred to herein means such instrument or law as from time to time amended, modified or supplemented, including (in the case of instruments) by waiver or consent and (in the case of any law) by succession of comparable successor laws and includes (in the case of instruments) references to all attachments thereto and instruments incorporated therein. References to a person are, unless the context otherwise requires, also to its successors and assigns. Any term defined herein by reference to any instrument or law has such meaning whether or not such instrument or law is in effect. "Shall" and "will" have equal force and effect. "Hereof," "herein," "hereunder" and comparable terms refer to the entire instrument in which such terms are used and not to any particular article, Section or other subdivision thereof or attachment thereto. References in an instrument to "Article," "Section" or another subdivision or to an attachment are, unless the context otherwise requires, to an article, Section or subdivision of, or an attachment to, such instrument. References to any gender include, unless the context otherwise requires, references to all genders, and references to the singular include, unless the context otherwise requires, references to the plural and vice versa.

(c) The headings of the Articles and Sections are inserted for convenience of reference only and shall be ignored in construing this Agreement.

(d) The Schedules to this Agreement are an integral part thereof.

ARTICLE II

Sale, Generation and Delivery of Emission Reductions

Section 201 Sale of Emission Reductions

Subject to the terms and conditions set forth in this Agreement, and in consideration for the Purchase Price to be paid by the Trustee pursuant to Section 2.02, the Host Country hereby sells, assigns and transfers to the Trustee, free and

clear of any Lien, and the Trustee hereby accepts in trust on behalf of the PCF Participants, all rights, title and interests in and to (i) all of the Minimum Emission Reductions generated by the Project until such time as the Total Minimum Emission Reductions have been delivered as required pursuant to Section 2.03, and (ii) such portions of the Additional Emission Reductions generated by the Project as required to be delivered to the Trustee pursuant to Section 2.04 below. All Greenhouse Gas emission reductions sold, assigned and transferred hereunder shall be subject to Verification and Certification, and shall be delivered to the Trustee, in accordance with Section 2.05 hereof.

Section 2.02 Purchase Price; Payments and Notification

(a) Subject to the terms and conditions set forth in this Agreement, the Trustee shall pay the Host Country a total purchase price (the "Purchase Price") of US\$ 2,477,000, from which shall be retained by the Trustee (1) certain costs incurred by the Trustee in connection with this Agreement and the Project and equal to US\$ 201,000; (2) an administrative fee of US\$ 25,000, and (3) the Advance Payment equal to US\$ 595,000.

(b) Upon effectiveness of this Agreement the amount of the Purchase Price shall be credited to the Purchase Account by the Trustee, to be transferred by the Trustee from that account in installments as follows; an amount equal to US\$ 821,000 shall be transferred from that account to be retained by the Trustee in satisfaction for the items listed in subparagraphs (1), (2) and (3) of paragraph (a) of this Section; thereafter, the Trustee shall make five (5) payments to the Host Country (each such payment a "Milestone Payment," and collectively, the "Milestone Payments") upon the achievement by the Project of certain specified milestones, as set forth in the payment schedule provided in Schedule 2 hereto; the Trustee shall make a final payment to the Host Country (the "Final Payment") following the delivery to the Trustee of the Total Minimum Emission Reductions in accordance with Section 2.03 of this Agreement. Each of the foregoing payments shall be made in accordance with the following provisions:

(i) Administrative fee and costs incurred. Following the Effective Date, the Trustee shall be entitled at its discretion to withdraw from the Purchase Account and pay to itself an amount equal to US\$ 226,000 for the administrative fee and the costs incurred as set out in paragraph (a) of this Section;

(ii) Repayment of Advance Payment. After the Effective Date, the Trustee shall, on behalf of the Host Country, withdraw from the Purchase Account and pay to itself the amount required to repay the amount of the Advance Payment withdrawn and outstanding as of such date;

(iii) Milestone Payments. Upon the achievement of each of the five (5) milestones set forth in Schedule 2, the Host Country shall deliver to the Trustee written notice thereof accompanied by any evidence or proof of such milestone (including the report of any independent engineer retained for the Project) which the Trustee shall be free to verify within a period of ninety (90) days of such written notice.. Within thirty (30) days of such written notice, or, if the Trustee chooses to verify, within thirty (30) days of the verification of such milestone, the Trustee shall withdraw from the Purchase Account and effect payment to the Host Country of an amount corresponding to the Milestone Payment required in respect of such milestone as set forth in Schedule 2. In the event the Trustee finds that the relevant milestone has not been met or if the Trustee is unable to verify such milestone, it shall promptly notify the Host Country thereof in writing; and

(iv) Final Payment. Upon delivery of the Total Minimum Emission Reductions as required pursuant to Section 2.03, the Trustee shall withdraw from the Purchase Account and effect payment to the Host Country of an amount equal to the Final Payment as required pursuant to this Section 2.02(b) and Schedule 2.

(c) The Trustee shall make all payments in US Dollars via wire transfer into such account as the Host Country shall designate.

(d) In consideration for the administrative fee to be received pursuant to Section 2.02 (b)(i) and subject to the terms and conditions set forth in this Agreement, the Trustee shall pay for all costs incurred in connection with Validation, Initial Verification, Verification and Certification of MERs and of its portion of AERs in accordance with Section 2.04, and Project supervision by the Trustee.

Section 2.03 Minimum Emission Reductions

Unless the Trustee and the Host Country agree otherwise, the Host Country shall be required to deliver to the Trustee minimum amounts of Emission Reductions in accordance with the provisions of this Section 2.03.

(a) Total MERs. The total amount of Emission Reductions delivered to the Trustee must reflect, at a minimum, a total reduction of GHG emissions of no less than 105,800 metric tonnes of carbon equivalent emissions (such amount, the "Total Minimum Emission Reductions" or "Total MERs"). Generation and delivery of the Total MERs shall be completed on or prior to 1 January 2013. The Total MERs shall be generated and delivered to the Trustee in accordance with the requirements of paragraph (b) below.

(b) Annual MERs. Other than as permitted pursuant to paragraph (c) below or as otherwise agreed by the Trustee, the Host Country shall (until such time as the Total MERs have been delivered) deliver to the Trustee, in respect of each calendar year listed in the following schedule, any and all Emission Reductions generated by the Project during such year provided that the Emission Reductions delivered for any such year shall be in an amount no less than the Minimum Emission Reductions for such year set forth in this schedule:

Calendar Year	Minimum Emission Reductions To be Delivered (in metric tonnes of carbon equivalent emissions)
2002	4,800
2003	6,700
2004	8,400
2005	9,700
2006	10,100
2007	10,500
2008	11,000
2009	11,000
2010	11,100
2011	11,200
2012	11,300
Total MERs	105,800

(c) Make-up of MERs Shortfalls. In the event the Host Country fails to deliver the quantity of Minimum Emission Reductions for any given calendar year as set forth in paragraph (b) above, the Host Country shall be required to make-up the shortfall over the course of the following calendar year or such later period as acceptable to the Trustee in its sole discretion; provided however, that the Host Country shall not be permitted to deliver any make-up quantities of MERs beyond 31 December 2012, and all MERs for prior years shall be delivered to Trustee in full by such date, unless otherwise permitted in writing by the Trustee. Any Emissions Reductions delivered as make-up quantities after 31 December 2012 shall be in addition to the portion of Additional Emission Reductions generated by the Project and required to be delivered to the Trustee pursuant to Section 2.04.

(d) ERs in excess of the Total MERs. For the avoidance of doubt,

any ERs generated in excess of the Total MERs due in accordance with paragraph (a) above shall be considered AERs and be delivered in accordance with Section 2.04.

Section 2.04 Additional Emissions Reductions

(a) Additional Emission Reductions

The Host Country shall deliver to the Trustee 50% of all Additional Emission Reductions generated by the Project, provided that, the average market price for Emission Reductions applicable to the period for which any such Additional Emissions Reductions are being delivered is not more than US\$25 per metric tonne of carbon equivalent emissions. In the event the market price is determined to be more than US\$25 per metric tonne of carbon equivalent emissions pursuant to the provisions of Section 2.04(b) below, the Host Country shall deliver to the Trustee the percentage of the Additional Emission Reductions generated by the Project in respect of such period corresponding to the applicable price as set forth in the table below:

Market Price (US\$ per Metric Tonne of Carbon Equivalent Emissions)	Trustee's Portion of the Additional Emission Reductions
25 and below	50%
Between 26 and 50	45%
Between 51 and 75	40%
Between 76 and 80	35%
Between 81 and 95	30%
Over 95	26%

(b) Determination of Market Price

For any period for which Additional Emissions Reductions are to be delivered, the Host Country shall have the right to file with the Trustee a claim that the applicable market price for such period is above US\$25 per metric tonne of carbon equivalent emissions; provided that such a claim is delivered to the Trustee prior to the Verification and Certification of Additional Emission Reductions for such period in accordance with the procedures established under Section 2.05. Such a claim must specify the market price that the Host Country believes is accurate for the period in question and provide the basis for such belief.

(i) No Dispute. If the Trustee agrees with the Host Country on the applicable market price, the Host Country shall deliver to the Trustee the percentage of the Additional Emission Reductions generated by the Project during such period corresponding to such price as set forth in the table in Section 2.04(a) above.

(ii) Dispute. If the Trustee disagrees with the Host Country's claim, the Host Country shall (1) deliver to the Trustee the percentage of the Additional Emission Reductions generated by the Project during such period as set forth in the table in Section 2.04(a) above based on the applicable market price asserted in the Host Country's claim and (2) place the remaining portion of Additional Emission Reductions in dispute in escrow in accordance with escrow arrangements agreed upon with the Trustee until the applicable price for such period is determined in accordance with the procedures in paragraph (iii) below. Upon such determination of the applicable price, the Additional Emission Reductions held in escrow shall be delivered to the appropriate Party based on the applicable price so determined.

(iii) Dispute Resolution. If the Trustee disagrees with the Host Country's claim:

(1) Consultation. The Trustee shall respond to the Host Country's claim in writing within

fifteen (15) days of receipt of such claim and, in any event, shall, over the course of the thirty (30) days following the receipt of such claim, consult or negotiate with the Host Country to arrive at a mutually agreed upon applicable price;

(2) Mediation or Expert Determination. In the event such consultations do not lead to a mutually agreed upon price, the Parties shall refer the matter to a mutually agreed upon third party mediator or third party expert that, in the case of a mediator, shall attempt to mediate the dispute and (failing a settlement) shall be required to issue its determination as to the applicable price, and, in the case of an expert, shall determine the applicable price based on its own expertise or market research. In all events (unless agreed by the Parties), the determination of the mediator or expert shall be issued by no later than the date thirty (30) days following the date the dispute was submitted to such mediator or expert. Subject to the provisions of sub-paragraph (iii)(3) below, the Parties agree to accept the determination of the mediator or expert;

(3) Arbitration. In the event the Parties cannot agree upon a mediator or expert, or if, within fifteen (15) days after the issuance of the determination of the mediator or expert, one Party notifies the other that it does not accept that determination, then either Party may submit the matter to arbitration in accordance with the provisions of Section 9.03;

(4) Cost of Mediation or Expert Determination The Parties shall share equally the cost of the mediator or expert.

Section 2.05 Verification and Certification of Emissions Reductions

(a) The Greenhouse Gas emission reductions generated by the Project shall be subject to Verification in accordance with the Monitoring and Verification Protocol, and be subject to periodic Certification at intervals to be determined by the Trustee.

(b) Following each Verification the Trustee shall instruct the Independent Third Party performing the Verification to issue a Verification Report that includes inter alia: (i) a statement of the amount of verified and certified Greenhouse Gas emission reductions the Project has generated in the relevant period, and (ii) such other matters as may be required by the UNFCCC or Kyoto Protocol.

ARTICLE III

Representations and Warranties

Section 3.01 Representations and Warranties of Host Country

The Host Country represents and warrants, as of the date of this Agreement, that:

(a) It has all requisite legal power and authority to execute this Agreement and to carry out the terms, conditions and provisions hereof. All corporate, legislative, administrative or other governmental action required to authorize the execution, delivery and performance by the Host Country of this Agreement and the transactions contemplated hereby have been duly taken and are in full force and effect. This Agreement constitutes the valid, legal and binding obligation of the Host Country, enforceable in accordance with the terms hereof. There are no actions, suits or proceedings pending or, to the Host Country's knowledge, threatened, against or affecting the Host Country before any court or administrative body or arbitral

tribunal which might materially adversely affect the ability of the Host Country to meet and carry out its obligations under this Agreement. The execution, delivery and performance of this Agreement by the Host Country will not contravene any provision of, or constitute a default under, any other agreement, treaty, or instrument to which it is party or subject, or by which it or its property may be bound;

(b) It has all rights, title and interest in and to all of the Emission Reductions to be generated by the Project, and that such Emission Reductions have not been sold, assigned or transferred to any party (other than hereunder), or otherwise subjected to any Lien;

(c) It is in compliance with its relevant obligations under the UNFCCC, the Kyoto Protocol, and any decisions, modalities, guidelines, and procedures adopted thereunder;

(d) It is not prevented pursuant to the relevant provisions of the UNFCCC or the Kyoto Protocol from transferring Emission Reductions required to be transferred hereunder; and

(e) It hereby approves the Project for the purposes of Article 6 of the Kyoto Protocol and authorizes the Trustee (and as appropriate the PCF Participants) to participate, under its responsibility, in actions leading to the generation, transfer or acquisition of Emission Reductions and emission reduction units from the Project, and agrees to take whatever steps may be required under the UNFCCC and Kyoto Protocol for these purposes.

ARTICLE IV

Obligations of the Trustee

Section 4.01 Obligations of the Trustee

The Trustee hereby covenants and agrees that it shall:

(a) Pay the installments of the Purchase Price as set out in this Agreement;

(b) Arrange for Initial Verification in accordance with this Agreement in a timely manner;

(c) Arrange for Verification and Certification in accordance with this Agreement in a timely manner; in particular with respect to GHG emission reductions generated by the Project in years where MERs constitute a milestone for a Milestone Payment;

(d) Fully cooperate with the Host Country and any Independent Third Party to ensure proper Verification, Certification, transfer and delivery of Greenhouse Gas emission reductions in accordance with the UNFCCC, the Kyoto Protocol, and any decisions, guidelines, modalities, and procedures adopted under those agreements; and

(e) Carry out its other obligations set forth in this Agreement.

ARTICLE V

Obligations of the Host Country

Section 5.01 Obligations Related to the Project

The Host Country hereby covenants and agrees that it shall:

(a) Use its good offices to enable the Project Entity to develop, finance, construct, own, operate, insure and maintain the Project with due diligence, speed, and efficiency so as to generate the maximum number of Emission Reductions. To this end, the Host Country shall take all necessary action including the provision, granting or issuance, as applicable, of facilities, services, permits, licenses, consents, authorizations and (during the Development and Construction Phase) of funds and other resources, necessary or appropriate to enable the Project Entity to perform such obligations, and shall refrain from, prohibit or prevent any action that would

prevent or interfere with such performance;

(b) Fully cooperate with the Trustee, the PCF Participants and any Independent Third Party to ensure proper certification of Greenhouse Gas emission reductions in accordance with the UNFCCC, the Kyoto Protocol, and any decisions, guidelines, modalities, and procedures adopted under those agreements and transfer to the order of the Trustee of the emission reductions thus certified;

(c) Take such action as is reasonable and appropriate to enable the Project Entity to secure a suitable site and all easements required for the Project;

(d) Not sell, assign or transfer to any party, or otherwise subject to any Lien, the Emission Reductions generated by the Project and sold, assigned and transferred to the Trustee hereunder; and

(e) Upon notice by the Trustee, grant any validator, verifier and certifier, any staff or other authorized representative of the Trustee, and any accredited representatives of any PCF Participants, unlimited and unrestricted access to its territory for the purposes of this Agreement.

Section 5.02 Subsidiary Agreement between Host Country and Project Entity

(a) The Host Country shall enter into a subsidiary agreement with the Project Entity under terms and conditions that shall have been agreed by the Trustee prior to its conclusion (the "Subsidiary Agreement"), such Subsidiary Agreement to provide, inter alia, that:

(i) The Project Entity shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall, provide or cause to be provided, promptly as needed, fund, facilities and other resources required for the Project;

(ii) The Project entity shall at all times operate and maintain its plant, 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 environmental practices;

(iii) The Project Entity shall satisfy any obligations in respect of applications for all licenses, permits, consents and authorizations required to implement the Project, and the Host Country shall support and use all reasonable efforts to expedite the Project Entity's applications for the same;

(iv) The Project Entity shall obtain, and the Host Country shall take such action as is reasonable and appropriate to enable the Project Entity to obtain, adequate supplies of water, utilities, materials and equipment, and procure the necessary transportation arrangements for the transport of all materials and equipment necessary to develop, construct, operate and maintain the Project;

(v) The Project Entity shall obtain and maintain at all times such insurance and in such amounts as satisfactory to the Trustee;

(vi) Upon Project completion and prior to the commencement of Commercial Operations, the Project shall be subject to initial verification by an Independent Third Party acceptable to the Trustee, in order to allow the Trustee to assess whether the Project as constructed by the Project Entity complies with the specifications of design and construction, and the provisions of the Monitoring and Verification Protocol ("Initial Verification");

(vii) The Project Entity shall install, operate and maintain the facilities and equipment necessary for gathering all such data as may be required by the Verification Protocol and necessary Monitoring and Certification for the purposes of Verification and Certification.

(viii) The Project Entity shall gather such data, provide it to the Trustee, allow the Trustee to divulge it at its sole discretion, and provide it to such other persons as the Trustee at its sole discretion may designate;

(ix) Following commencement of Commercial Operations, the Project shall be subject to periodic Verification, in accordance with the Monitoring and Verification Protocol, by an Independent Third Party acceptable to and contracted by the Trustee;

(x) The Project Entity, upon notice by the Trustee, shall: (i) grant any validator, verifier and certifier, any staff or other authorized representative of the Trustee, and any accredited representatives of any PCF Participants, unlimited and unrestricted access to the Project, the Project site, and information and data pertaining to the abatement of GHG emissions; and (ii) allow and facilitate the performance by the Independent Third Party verifier of all tests or other procedures necessary for the aforementioned verification processes; and

(xi) The Host Country has all rights, title and interest in and to any and all Emission Reductions generated by the Project, and that such Emission Reductions shall not be sold, assigned or transferred to any party, or otherwise subject to any Lien, in a manner inconsistent with the Host Country's obligations under this Agreement.

(b) The Host Country shall exercise its rights under the Subsidiary Agreement in such a manner as to protect the interests of the Host Country and the Trustee and to accomplish the purposes of this Agreement so as to maximize the generation of Emission Reductions from the Project and, except as the Trustee shall otherwise agree in writing, the Host Country shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 5.03 Compliance with UNFCCC and Kyoto Protocol

The Host Country shall continue to be in good standing with the UNFCCC, the Kyoto Protocol and any decisions, guidelines, modalities, and procedures adopted under those agreements. To this effect, Host Country specifically covenants that:

(a) It will continue to maintain itself in compliance with its obligations under the UNFCCC, the Kyoto Protocol and the decisions, modalities, guidelines and procedures adopted under that regulatory framework. In particular, but without limitation to the foregoing, it shall ensure compliance with its obligations under Articles 4 and 12 of the UNFCCC and Articles 3, paragraphs 1 and 2, and Articles 5, 7 and 10 of the Kyoto Protocol; and

(b) It shall ensure that during the life of the Project it does not by its own acts or omissions prevent itself from transferring the agreed amount of Total Minimum Emission Reductions generated by the Project.

ARTICLE VI

Events of Default by the Host Country; Remedies

Section 6.01 Events of Default

(a) Each of the following events shall constitute an event of default on the part of the Host Country:

(i) The EU Financing Memorandum shall have failed to become effective by November 1, 2001, or on such later date as the Trustee may agree; provided however that the provisions of this paragraph shall not apply if the Host Country establishes to the satisfaction of the Trustee that adequate funds for the Project are available to the Host Country from other sources on terms and conditions consistent with the obligations of the Host Country under this Agreement.

(ii) The occurrence of an event of default under the Loan Agreement or any other grant, loan or agreement made or entered for the purpose of financing the Project.

(iii) The suspension, cancellation, acceleration prior to the agreed maturity thereof or termination in whole or in part, of the Loan Agreement or any other agreement or instrument providing for a grant or loan for the purpose of financing the Project, provided that, with respect to any grant or loan pursuant to an agreement or instrument other than the Loan Agreement, the foregoing shall not constitute an event of default if the Host Country establishes to the satisfaction of the Trustee that such suspension, cancellation, acceleration or termination is not caused by the failure of the Host Country or Project Entity to perform any of its obligations under such agreement or instrument, and adequate funds for the Project are available to the Host Country or Project Entity from other sources on terms and conditions consistent with its obligations under this Agreement.

(iv) Changes in the ownership structure of Project Entity in a manner that detrimentally affects its ability to carry out the Project in the reasonable opinion of Trustee.

(v) The dissolution, disestablishment, liquidation, insolvency or bankruptcy (voluntary or involuntary) of the Project Entity.

(vi) Failure of the Project Entity to enter or obtain in a timely manner (as reasonably determined by the Trustee), or any default under, any material contract, permit consent or license relating to the ownership, development, construction, operation or maintenance of the Project (or any portion thereof) that, in the reasonable opinion of the Trustee, would materially adversely affect the ability of the Host Country to perform its obligations hereunder.

(vii) Any delay in Project construction such as to make it improbable in the reasonable opinion of the Trustee that the Total Minimum Emission Reductions would be generated before 1 January 2013.

(viii) Any suspension for any reason of the Project's construction prior to the completion, if no other arrangements reasonably satisfactory to the Trustee shall have been made to ensure the timely completion of the Project and the attainment of its objectives.

(ix) Failure of either the Host Country or the Project Entity to comply with their respective obligations under the Subsidiary Agreement or any other agreement between the Host Country and Project Entity.

(x) Failure of the Host Country to ratify the Kyoto Protocol within 180 days of its entry into force.

(xi) Withdrawal, or the delivery of written notice for withdrawal, of the Host Country from the UNFCCC or

the Kyoto Protocol, or the exclusion of the Host Country from Annex I to the UNFCCC, or Annex B to the Kyoto Protocol.

(xii) Breach of any representation, warranty, covenant or agreement of the Host Country provided under this Agreement, other than failure to deliver the Minimum Emission Reductions due per calendar year as set forth in the schedule in Section 2.03.

(xiii) Failure of the Host Country to deliver for three (3) consecutive calendar years the Minimum Emission Reductions due pursuant to Section 2.03, provided that the cumulative amount of MERs delivered in the three years in question is at least 30% short of the cumulative amount of MERs that the Host Country was required to deliver in that three year period.

(xiv) Failure of the Host Country to deliver for five consecutive calendar years the Minimum Emission Reductions due pursuant to Section 2.03 of this Agreement, provided that the cumulative amount of MERs delivered in the five years in question is at least 15% short of the cumulative amount of MERs that the Host Country was required to deliver in that five year period.

(xv) Non-delivery by the Host Country of the Total MERs prior to 1 January 2013 or on such other date as permitted in writing by the Trustee.

(xvi) The authorization or undertaking by any person or entity of an investment in the territory of the Host Country that is, in the reasonable opinion of the Trustee, inconsistent with the provisions of this Agreement, and shall make it improbable for its objectives to be attained.

(xvii) The occurrence of any other event or circumstance that, in the reasonable opinion of the Trustee, materially adversely affects the ability of the Host Country to perform its obligations hereunder.

(b) The event set forth in subparagraph (xv) of paragraph (a) of this Section, shall not constitute an event of default in case the Trustee fails to pay within thirty (30) days of the notice set forth in Section 7.03 (a) of this Agreement any portion of the Purchase price due, and such failure causes such a delay in the Project's Development and Construction Phase that generation of the Total MERs before 1 January 2013 becomes unlikely; Host Country shall have the right to file with the Trustee a claim that the Schedule of Minimum Emission Reductions To Be Delivered set forth in Section 2.03 of this Agreement, is to be adjusted. Such a claim must specify the amounts of MERs per calendar year and Total MERs that the Host Country believes are appropriate and provide the basis for such belief.

(i) No Dispute. If the Trustee agrees with the Host Country on the said amounts and years, the schedule set forth in Section 2.03 of this Agreement shall be adjusted accordingly.

(ii) Dispute Resolution. If the Trustee disagrees with the Host Country's claim:

(A) Consultation. The Trustee shall respond to the Host Country's claim in writing within fifteen (15) days of receipt of such claim and, in any event, shall, over the course of the thirty (30) days following the receipt of such claim, consult or negotiate with the Host Country to arrive at a mutually agreed upon applicable amounts of MERs per calendar year and Total MERs;

(B) Mediation or Expert Determination. In the event such consultations do not lead to a

mutually agreed upon amounts of MERs per calendar year and Total MERs, the Parties shall refer the matter to a mutually agreed upon third party mediator or third party expert that, in the case of a mediator, shall attempt to mediate the dispute and (failing a settlement) shall be required to issue its determination as to the applicable price, and, in the case of an expert, shall determine the applicable price based on its own expertise or market research. In all events (unless agreed by the Parties), the determination of the mediator or expert shall be issued by no later than the date thirty (30) days following the date the dispute was submitted to such mediator or expert. Subject to the provisions of Section 6.01 (b)(iii)(C) below, the Parties agree to accept the determination of the mediator or expert;

(C) Arbitration. In the event the Parties cannot agree upon a mediator or expert, or if, within fifteen (15) days after the issuance of the determination of the mediator or expert, one Party notifies the other that it does not accept that determination, then either Party may submit the matter to arbitration in accordance with the provisions of Sections 9.03;

(D) Cost of Mediation or Expert Determination. The Parties shall share equally the cost of the mediator or expert.

Section 6.02 Notice and Cure

(a) Upon the occurrence of any of the events of default specified under Section 6.01, the Trustee shall deliver to the Host Country a notice of default, specifying with particularity the occurrence, event or condition upon which the notice is based.

(b) Other than with respect to the events or occurrences specified under Sections 6.01(xi) (for which no cure period shall apply), the Host Country shall have sixty (60) days following the delivery of a notice of default to cure the defaults specified in such notice, provided that, the parties may mutually agree to extend the time for such cure. The Host Country's failure to demonstrate to the satisfaction of the Trustee that all such defaults have been cured within the sixty day period, or such other period as mutually agreed, shall give rise to the Trustee's right to pursue the remedies set forth in Section 6.03.

Section 6.03 Remedies

Upon the occurrence of any event of default under Section 6.01 and the failure of the Host Country to cure such default as provided under Section 6.02, the Trustee may elect to exercise any one or more rights provided hereunder. In addition, the Trustee shall be entitled to pursue all other rights or remedies provided under applicable law; such rights or remedies shall be cumulative and may be exercised concurrently or successively. The selection of any one or more rights or remedies shall not operate as a waiver of any other rights or remedies.

(a) If any event of default occurs during the period prior to the start of Commercial Operations of the Project, then the Trustee may terminate this Agreement upon notice to the Host Country, and require the Host Country to repay the Trustee, within ninety (90) days of such request, any portions of the Purchase Price already paid plus interest on any such amounts at the rate of LIBOR plus 0.55% from the dates such portions of the Purchase Price were delivered to the Host Country to the dates such amounts are repaid to the Trustee.

(b) If any event of default occurs after the start of Commercial Operations of the Project, then the Trustee may, upon a notice to the Host Country, terminate this Agreement and require the Host Country to repay the Trustee, within ninety (90)

days of such request, an amount that shall be equal to:

$$\frac{\text{Total MERs} - \text{MERs actually delivered}}{\text{Total MERs}} \times \text{Purchase Price}$$

plus interest on any such amounts so calculated at a rate equal to LIBOR plus 0.55% from the dates such amounts were delivered to the Host Country to the dates such amounts are repaid to the Trustee.

ARTICLE VII

Events of Default by the Trustee; Remedies

Section 7.01 Events of Default by Trustee

Each of the following events shall constitute an event of default on the part of the Trustee:

(a) Failure to pay installments of the Purchase Price in accordance with this Agreement.

(b) Failure to arrange for Initial Verification, Verification and Certification in accordance with this Agreement in a timely manner; in particular with respect to GHG emission reductions in accordance with the Project in years where MERs constitute a milestone for a Milestone Payment.

(c) Failure to cooperate with the Host Country and any Independent Third Party to ensure proper Verification, Certification, transfer and delivery of Greenhouse Gas emission reductions in accordance with the UNFCCC, the Kyoto Protocol, and any decisions, guidelines, modalities, and procedures adopted under those agreements.

Section 7.02 Notice and Cure

(a) Upon occurrence of any of the events specified under Section 7.01, the Host Country shall deliver to the Trustee a notice of default, specifying with particularity the occurrence, event or condition upon which the notice is based.

(b) The Trustee shall have thirty (30) days following the delivery of a notice of default to cure the defaults specified in such notice, provided that the Parties may mutually agree to extend the time for such cure. The Trustee's failure to demonstrate to the satisfaction of the Host Country that all such defaults have been cured within the thirty day period, or such other period as mutually agreed, shall give rise to the Host Country's right to pursue the remedies set forth in Section 7.03.

Section 7.03 Remedies

(a) Upon the occurrence of any event of default under paragraph (a) of Section 7.01 and the failure of the Trustee to cure such default as provided under Section 7.02, the Host Country may upon notice to the Trustee, require the Trustee to pay within ninety (90) days of such request any portion of the Purchase Price due, plus interest on any such amounts at the rate of LIBOR plus 0.55%, from the dates such portion were due to the dates such amounts are paid to the Host Country.

(b) Upon the occurrence of any event of default under paragraphs (b), (c) or (d) of Section 7.01 and the failure of the Trustee to cure such default as provided under Section 7.02, the Host Country may, upon notice to the Trustee, suspend delivery of ERs, until such time as Trustee shall have resumed its obligations under said paragraphs, upon which delivery by the Host Country of any amounts of ERs for which delivery was suspended, shall be made in full.

ARTICLE VIII

Cooperation and Information

Section 8.01 Cooperation and Information

The Host Country and Trustee shall cooperate fully to assure that the purposes of this Agreement will be accomplished. To that end, the Host Country and Trustee shall:

(a) from time to time, at the request of any one of them, exchange views with regard to the progress of the Project, the purpose of this Agreement and their respective obligations under this Agreement; and furnish to the other Party all such information related thereto as it shall reasonably request; and

(b) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (a) above.

Section 8.02 Treatment of information and release of information

Each Party to this Agreement shall be allowed to disclose or divulge non-proprietary information regarding the Project to third parties. The Parties shall keep each other informed of any such disclosure.

ARTICLE IX

Miscellaneous Provisions

Section 9.01 Enforceability

The rights and obligations of the Host Country and the Trustee under this Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any State or political subdivision thereof to the contrary. Neither the Host Country nor the Trustee shall be entitled in any proceeding arising out of or relating to this Agreement to assert any claim that any provision of this Agreement is invalid or unenforceable because of any provision contained in the Instrument.

Section 9.02 Failure to Exercise Rights

No delay in exercising, or omission to exercise, any right, power or remedy accruing to any party under this Agreement shall impair any such right, power or remedy or be construed to be a waiver thereof. No action of such party in respect of any default or any acquiescence by it in default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 9.03 Arbitration

Without prejudice to the provisions of Sections 2.04(b)(ii), 2.04(b)(iii) and 6.01(b)(ii), any dispute between the Parties arising out of or relating to this Agreement shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force. The number of arbitrators shall be three. The appointing authority shall be the Secretary-General of the Permanent Court of Arbitration at The Hague. The language to be used in the arbitral proceedings shall be English.

Section 9.04 Revalidation of Baseline

(a) The Trustee and Host Country may each require and arrange for re-Validation of the Baseline, each at its own expense, provided that the Independent Third Party that is to perform such re-Validation and the methodology to be utilized in such re-Validation, is subject to prior written approval by the Trustee.

(b) In the event that re-Validation of the Baseline is required by any decisions, guidelines, modalities and procedures to be adopted under the regulatory framework of the UNFCCC or the Kyoto Protocol, the Trustee, at its own expense, shall arrange for such re-Validation.

Section 9.05 Amendments to Monitoring and Verification Protocol

The Trustee has the right to introduce amendments to the Monitoring and Verification Protocol (i) when such amendments are necessary to reflect any guidelines

for Monitoring, Verification and reporting that may be elaborated by the Parties to the UNFCCC; (ii) when such amendments appear warranted by concerns identified by the Independent Third Party; or (iii) in the event that a re-Validation of the Baseline leads to an outcome which is substantially different from that in the Validation Report.

Section 9.06 Amendments to the Agreement

Except as otherwise provided herein, this Agreement may not be amended except by a written agreement executed by Trustee and the Host Country.

Section 9.07 IBRD Capacity; Non-Recourse; Privileges and Immunities

(a) This Agreement is entered by the IBRD, not personally or in its individual capacity, but as trustee of the PCF pursuant to the Instrument. The obligations of the PCF under this Agreement are not binding upon the IBRD or any of the PCF Participants, personally or in their respective individual capacities, but bind only the PCF.

(b) The Host Country agrees to look solely to the assets of the PCF for the enforcement of any obligations, claims or liabilities under or in connection with this Agreement or the Project, as neither the Trustee, IBRD, any of its affiliated entities, the PCF Participants, other beneficiaries of the PCF, nor any of their respective officers, directors, employees, partners, members or shareholders, assume or shall be subject to any personal liability for any of the obligations, claims or liabilities entered into, or incurred hereunder, on behalf of PCF.

(c) Nothing in this Agreement shall be considered to be a waiver of any privileges and immunities of the IBRD, the Trustee, or, where applicable, the PCF Participants or their respective officers, employees, representatives or agents, under the Articles of Agreement of IBRD or any applicable law. All such privileges and immunities are expressly reserved.

Section 9.08 Notices

Any notice communication, request or correspondence required or permitted under the terms of this Agreement shall be in writing, in the English language (it being understood that any such communication in a language other than English shall be of no force and effect), and shall be delivered personally, or via courier, mail, or facsimile to the address and telecopier numbers provided below.

For the Host Country:

Ministry of Finance
1 Smilsu Street
Riga, LV-1919
Republic of Latvia

Telex:

871 161 299

Facsimile:

371 7095 503

For the Trustee:

Prototype Carbon Fund
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD

Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

Section 9.09 Execution in counterparts; Language

This Agreement shall be executed in two counterparts in the English language, each of which shall be an original.

Section 9.10 Action on behalf of the Host Country or Trustee

(a) For the purposes of Section 9.10(b) the Minister of Finance of the Host Country is hereby designated as representative of the Host Country and the Vice President Environmentally and Socially Sustainable Development is hereby designated as representative of the Trustee.

(b) Any action required or permitted to be taken, and any documents required or permitted to be executed, pursuant to this Agreement on behalf of the Host Country (or Trustee) may be taken or executed by the representative of the Host Country (or Trustee) designated in this Agreement for the purposes of this Section or any person thereunto authorized in writing by such representative. Any modification or amplification of the provisions of this Agreement may be agreed to on behalf of the Host Country (or Trustee) by written instrument executed on behalf of the Host Country (or Trustee) by the representative so designated or any person thereunto authorized in writing by such representative; provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the Host Country (or Trustee) under this Agreement. The Host Country (or Trustee) may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of this Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Host Country (or Trustee) thereunder.

Section 9.11 Evidence of Authority

The Parties shall furnish to each other sufficient evidence of the authority of the person or persons who will, on their behalf, take any action or execute any documents required or permitted to be taken or executed by the respective Parties under this Agreement, and the authenticated specimen signature of each such person.

ARTICLE X

Effective Date; Expiration; Earlier Termination

Section 10.01 Conditions Precedent to Effectiveness of this Agreement

This Agreement shall become effective on the date evidence satisfactory to the Trustee shall have been furnished to the Trustee demonstrating that:

(a) The execution and delivery of this Agreement on behalf of the Host Country has been duly authorized or ratified by all necessary governmental and corporate action and, upon execution and delivery, this Agreement shall constitute the legal, valid, binding and enforceable obligation of each Party hereto;

(b) The Loan Agreement the NIB Loan Agreement, the SIDA Grant Agreement have been executed and delivered, and all conditions precedent (other than the effectiveness of this Agreement) to their effectiveness and to the right of the Host Country to effect draws thereunder, have been fulfilled;

(c) the Subsidiary Agreement has been executed and delivered, and all conditions precedent to its effectiveness, other than the effectiveness of this Agreement, have been fulfilled; and

(d) The Host Country has notified the Secretariat of the UNFCCC, in a manner satisfactory to the Trustee, of this Agreement and of its intention to debit its Assigned Amount in the amount of at least the Total MERs.

Section 10.02 Legal Opinions or Certificates

As part of the evidence to be furnished pursuant to Section 10.01, there shall be furnished to the Trustee opinions satisfactory to the Trustee of counsel acceptable to the Trustee or, if the Trustee shall so request, a certificate satisfactory to the Trustee of a competent official of the Host Country demonstrating that:

(a) This Agreement has been duly authorized or ratified by, and executed and delivered on behalf of the Host Country, and is a legal, valid and binding obligation of the Host Country enforceable in accordance with its terms;

(b) The Loan Agreement, the NIB Loan Agreement, and the SIDA Grant Agreement have been duly authorized or ratified by the Host Country, and each is a legal, valid and binding obligation of the parties thereto enforceable in accordance with its terms;

(c) The Subsidiary Agreement has been duly authorized or ratified by the Host Country and the Project Entity and is a legal, valid and binding obligation of the Host Country and Project Entity enforceable in accordance with its terms; and

(d) The Host Country has duly notified the Secretariat of the UNFCCC of this Agreement and of its intention to debit its Assigned Amount in the amount of at least the Total MERs.

Section 10.03 Effective Date; Expiration

This Agreement shall enter into effect on the date upon which the Trustee delivers to the Host Country notice of its acceptance of the evidence required by Section 10.01, and, unless otherwise earlier terminated in accordance with the provisions hereof, shall continue in full force and effect until the Project Termination Date.

Section 10.04 Termination of this Agreement for Failure to Become Effective

If this Agreement shall not have entered into effect by ninety (90) days after the date of this Agreement, this Agreement and all obligations of the Parties hereunder shall terminate, unless the Trustee, in its sole discretion after consideration of the reasons for the delay, shall establish a later date for the purposes of this Section. The Trustee shall promptly notify the Host Country of such later date.

Section 10.05 Assignment

(a) The Host Country may not assign, delegate or revoke its rights or obligations under this Agreement to any party without the prior written consent of the Trustee, such consent not to be unreasonably withheld. Any such purported assignment without such consent shall be deemed ineffective and void.

(b) The Trustee may assign all or a part of its rights and obligations under this Agreement at any time to any one or more parties, and in the event of such assignment, the Host Country shall continue to perform its obligations hereunder for the benefit of such assignee(s), it being understood that any reference to the Trustee; or the PCF, or the PCF Participants herein, shall, following such assignment, be deemed to be a reference to such assignee(s). The Trustee shall promptly notify the Host Country of such assignment.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly

executed as of the date first above written.

REPUBLIC OF LATVIA

By /s/ Gundars Berzins

Minister of Finance

INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT, AS TRUSTEE OF
THE PROTOTYPE CARBON FUND

By /s/ Basil G. Kavalsky

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Description of the Project

The objective of the Project is to generate Greenhouse Gas emission reductions through maximum collection and utilization of landfill gas in Liepaja City and Liepaja Region.

The Project consists of the following parts, subject to such modifications thereof as the Host Country and the Trustee may agree upon from time to time to achieve such objectives:

Part A: Development and Construction Phase

1. Remediation and closure of selected existing dumpsites through separation of surface water coverage and/or re-vegetation, according to the condition of each site.
2. Improvement of site operation through establishment of: (a) a sorting line for separation of recyclable materials; (b) separate storage areas for recyclable and hazardous materials treatment plant for collected leachate; and (c) automated transportation system between cells and special equipment to treat sludge.
3. Shredding equipment for pretreatment of waste before transport to the energy cells, installation of energy cells and a landfill gas collection system.
4. Installation of a power generator, running on landfill gas, of about 1 megawatt capacity at Grobina and of about 0.3 megawatts capacity at Skede.
5. Establishment of waste collection points in each municipality in Liepaja Region to assure the efficient transport of waste to the regional disposal site, and provision of vehicles for transportation.
6. Provision of the detailed design, including technical specifications, bill of quantities and all necessary drawings for project implementation, and bidding documents.

Part B: Commercial Operations Phase

1. Operation of the Project after Initial Verification until the Project Termination Date during which there shall be (1) collection of landfill gas (LFG) containing about 50 percent methane, and (2) use of captured methane to generate electricity.

SCHEDULE 2

Schedule of payments (in '000 US\$)

PLEASE SEE ORIGINAL FOR SCHEDULE 2 AND SCHEDULE 3, THE FORMAT WILL NOT FIT PAGE

SCHEDULE 3

Validation Report

