

CONFORMED COPY

GUARANTEE NUMBER B-109-0 LE

Indemnity Agreement

(Power Sector Restructuring and Transmission Expansion
Project)

between

THE LEBANESE REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 2, 1997

GUARANTEE NUMBER B-109-0 LE

INDEMNITY AGREEMENT

Agreement, dated July 2, 1997 between
The Lebanese Republic ("Lebanon"), of the one
part, and International Bank for
Reconstruction and Development (the "Bank"),
of the other part.

WHEREAS (A) Pursuant to a Subscription
Agreement (the "Subscription Agreement"),
dated June 30, 1997 among (i) Lebanon, as
issuer of the bonds described below and (ii)
Merrill Lynch International and other
entities as Managers (collectively, the
"Managers"), the Managers have jointly and
severally agreed to subscribe and pay for the
7.50% Bonds due 2007 to be issued by Lebanon
in an aggregate amount of US\$100,000,000 (the
"Bonds"), upon the terms and conditions
contained in the Subscription Agreement;

(B) The Net Bond Proceeds (as
defined below) are to be used by Lebanon to
assist in financing the expansion of its high
voltage transmission system as described in
Section 1.02(i) of this Agreement;

(C) At the request and with the
agreement of Lebanon, the Bank has agreed to

guarantee (the "IBRD Guarantee") the payment at stated maturity of the principal amount only of the Bonds (the "IBRD Guarantee Amount"), on the terms and conditions set forth in Article Eleven of the Fiscal Agency Agreement referred to in the Subscription Agreement; and

(D) In consideration of the Bank's agreeing to provide the IBRD Guarantee, Lebanon has agreed unconditionally and irrevocably to undertake the obligations towards the Bank as hereinafter provided;

NOW, THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. Sections 1.02, 8.01(b), 9.01, 9.02, 9.03 (a) and (c), 9.04, 9.05, 9.06, 9.07 (a) and (c), 9.08, 9.09, 10.01, 10.02, 10.03, 10.04, 11.01, 11.02, 11.03 and 11.04 of the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (the "General Conditions"), are hereby incorporated and constitute an integral part of this Agreement, and the several terms defined in the General Conditions have the respective meanings assigned to them therein, provided, however, and unless the context may otherwise require, that references in said Sections to:

(a) the "Borrower" and the "Guarantor" shall be deemed to refer to "Lebanon";

(b) the "Loan Agreement" and "Guarantee Agreement" shall be deemed to refer to "this Agreement";

(c) the "Loan" and the "Project" shall be deemed to refer to the "IBRD Guarantee" and the "Project", as the latter expression is defined in Section 1.02(i) below;

(d) the "proceeds of the Loan" shall be deemed to refer to the "proceeds of the Bonds";

(e) principal, interest and/or charges on the "Loan" shall be deemed to refer to amounts payable to the Bank under this Agreement; and

(f) the "purposes of the Loan" shall be deemed to refer to the "objectives of the Project".

Section 1.02. Wherever used in this Agreement, unless otherwise defined below or

unless the context otherwise requires, the several terms defined in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms shall have the following meanings:

(a) "Central Bank" means Banque du Liban, Lebanon's central bank, established and operating pursuant to the Money and Credit Law promulgated by Decree No. 13513 of Lebanon, dated August 1, 1963, as the same may be amended from time to time;

(b) "Closing Date" and "Fiscal Agency Agreement" have the respective meanings set forth in the Subscription Agreement, and "Fiscal Agent", "Paying Agents", "Transfer Agents", "Listing Agent" and "Registrar" have the respective meanings set forth in the Preliminary Offering Circular dated June 4, 1997 relating to the offering of the Bonds;

(c) "EDL" means Electricité du Liban, a public authority established and operating pursuant to Decree No. 16878 of Lebanon, dated July 10, 1964, amended by Decree No. 4517 of Lebanon, dated December 13, 1972, and as the same may be amended from time to time;

(d) "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services which are (i) required for the Project as they are actually incurred and which have not been financed out of the proceeds of the IBRD Loan and (ii) procured in accordance with the principles set out in Section 3.01(a) below;

(e) "Eligible Investments" means marketable securities denominated in U.S. Dollars which are issued by the Government of the United States of America, are either interest-bearing or purchased at a discount, and which have a maturity at issue of one (1) year or less (such securities being commonly referred to as "Treasury bills" or "T bills"), and marketable securities denominated in Lebanese Pounds which are issued by Lebanon, are either interest-bearing or purchased at a discount, and which have a maturity at issue of one (1) year or less (such securities also being commonly referred to as "Treasury bills");

(f) "IBRD Loan" means the US\$65,000,000 equivalent loan made by the Bank to Lebanon pursuant to the IBRD Loan Agreement;

(g) "IBRD Loan Agreement" means the loan agreement between Lebanon and the Bank dated December 16, 1996 in respect of the Power Sector Restructuring and Transmission Expansion Project (Loan No. 4112-LE);

(h) "Net Bond Proceeds" means the proceeds from the issuance of the Bonds, less an amount equal to the sum of the amounts referred to in Section 3.01 (b) of the present Agreement;

(i) "the Project" means the expansion of the Lebanese high voltage transmission system described in Schedule 2, Part A of the IBRD Loan Agreement to be implemented by EDL with Lebanon's assistance and, as part of such assistance, Lebanon will make available the Net Bond Proceeds to EDL as provided in this Agreement;

(j) "Subsidiary Loan Agreement" means the agreement entered, or to be entered, into between Lebanon and EDL pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(k) "U.S. Dollars" and "US\$" mean the lawful currency of the United States of America; and

(l) "Lebanese Pounds" means the lawful currency of The Lebanese Republic.

ARTICLE II

Indemnity

Section 2.01. (a) Without limitation or restriction upon any of its obligations under this Agreement, Lebanon hereby irrevocably and unconditionally: (i) agrees to reimburse the Bank forthwith on demand, or as the Bank may otherwise direct, any amount paid by the Bank under the IBRD Guarantee, together with any interest payable pursuant to Section 2.01(c)(ii)below; and (ii) agrees to indemnify the Bank on demand and hold the Bank harmless against all actions, proceedings, liabilities, claims, losses, damages, costs and expenses suffered or incurred by the Bank, directly or indirectly, in relation to or arising from the provision of the IBRD Guarantee.

(b) Lebanon hereby irrevocably authorizes the Bank to comply with any demands arising from or in connection with the IBRD Guarantee and make any payments which may be due or claimed from or made upon the Bank under the IBRD Guarantee. The Bank shall notify Lebanon of any such demand, but failure to give such notice shall in no way affect the Bank's obligation to make payment under the IBRD Guarantee, or the irrevocable and unconditional obligation of Lebanon to reimburse and/or indemnify the Bank pursuant hereto. Lebanon further agrees that it shall not be incumbent on the

Bank to inquire whether or not any such demands or payments are in fact due, or whether or not any dispute exists between Lebanon and the holders of the Bonds. Lebanon agrees that, in the absence of any manifest error, any such demand or payment shall, as between Lebanon and the Bank, be conclusive and binding evidence that the demand is properly made and/or payment properly due under the IBRD Guarantee.

(c) Lebanon hereby agrees that any payment required to be made by Lebanon to the Bank pursuant to the terms of this Agreement shall be:

(i) paid in the currency paid by the Bank in accordance with its obligations under the IBRD Guarantee, or if such payment shall have been made in a currency which the Bank shall have purchased with another currency for the purpose of such payment, in such other currency;

(ii) paid with interest at the rate per annum specified by the Bank in respect of such currency, which rate shall be based on the Bank's prevailing borrowing cost in such currency, plus the applicable margin over such cost, from the date payment is made by the Bank under the IBRD Guarantee until such amount is paid in full by Lebanon to the Bank;

(iii) paid at such places as the Bank shall reasonably request;

(iv) made in such manner, and in currencies acquired in such manner, as shall be permitted under the laws applicable to the making of such payment and effecting the deposit of such currencies to the account of the Bank with a depository designated by the Bank for this purpose;

(v) paid without deduction for, and free from, any taxes, duties, charges or withholdings levied by, or in the territory of, Lebanon;

(vi) paid without any restrictions whatsoever imposed by, or in the territory of, Lebanon; and

(vii) applied first to pay all sums due by way of indemnity to the Bank as specified in (a)(ii) above, then, second, and after payment of the same, to pay all sums then due to the Bank as specified in

(a)(i) above.

(d) Lebanon hereby agrees that this Agreement shall be free from any taxes, duties or charges levied by, or in the territory of, Lebanon on or in connection with the execution, delivery or registration thereof.

Section 2.02. (a) In further consideration of the Bank providing the IBRD Guarantee, Lebanon shall, on the Closing Date, pay or cause payment to be made to the Bank, by electronic wire transfer, in same day immediately available freely transferable funds, a guarantee fee of US\$ 1,288,749.

(b) If, prior to their stated maturity date in July 2007 and in accordance with their terms and conditions, any of the Bonds (the "Redeemed Bonds") are either redeemed or purchased by or on behalf of Lebanon, and canceled, and as a result of such cancellation the Bank's obligations under the IBRD Guarantee in relation to such Redeemed Bonds are and shall be forever released, either as provided under the terms and conditions of the Bonds and the Fiscal Agency Agreement, or by operation of law, or both, then: (i) the Bank shall refund to Lebanon such portion of the guarantee fee stipulated in Section 2.02(a) above as is equal to the product obtained by multiplying the amount appearing in the column entitled "Fee Refund at end of quarter" opposite the date appearing in the column entitled "Date" set out in Schedule 1 hereto (and being the date of the then immediately next following calendar quarter date) by a fraction, the numerator of which shall be equal to the aggregate principal amount of Bonds which have been redeemed or purchased, as the case may be, and canceled, and the denominator of which shall be equal to US\$100,000,000. For greater certainty and for the purposes of this Section 2.02(b), Lebanon acknowledges and agrees that said refund shall not be prorated in the event that the cancellation of the Redeemed Bonds does not occur at the end of any quarterly period reflected in said Schedule 1. The Bank shall make such refund within 15 days of receipt by the Bank of a certificate signed jointly by Lebanon and the Principal Paying Agent stating (x) the aggregate principal amount of Bonds which have been redeemed or purchased, as the case may be, and canceled, (y) the serial numbers in numerical sequence of such canceled Redeemed Bonds, in the case of Bonds in definitive form only (the "Definitive Form Redeemed Bonds"), and (z) that the Principal Paying Agent has destroyed the Definitive Form Redeemed Bonds; and (ii) the IBRD Guarantee Amount and the obligations of Lebanon in respect thereto pursuant to Section 2.01(a)(i) above shall be correspondingly reduced by an amount equal to

the aggregate face value of the Redeemed Bonds.

Section 2.03. (a) The obligations of Lebanon hereunder shall not be in any way discharged, modified or impaired by reason of any extension of time, forbearance, concession or other indulgence which may be granted to the Bank by the Fiscal Agent or the holders of the Bonds, by any variation of the terms and conditions of the Fiscal Agency Agreement or the Bonds (other than to reduce the principal amount due on stated maturity), or any related agreement, nor by any other circumstances which would or might (but for this provision) constitute a discharge or stay of, or defense to, Lebanon's obligation to reimburse or indemnify the Bank hereunder.

(b) The Bank may at any time, without thereby discharging, impairing or otherwise affecting any rights, powers and remedies hereby created or conferred upon it by this Agreement, the Bonds, the Fiscal Agency Agreement or any related agreement or by law: (i) offer or agree to or enter into any agreement for the extension or variation of the IBRD Guarantee, without increase in the IBRD Guarantee Amount; or (ii) offer or give or agree to give any time or other indulgence to any person or entity from whom the Bank may seek reimbursement or indemnity in respect of sums paid out by the Bank under the IBRD Guarantee.

(c) Any rights, powers or remedies conferred on the Bank by this Agreement shall be in addition to, and not in substitution for or derogation of, any other right which the Bank may at any time enjoy against Lebanon or any other person or entity in respect of reimbursement or indemnification against payments made or liabilities incurred under the IBRD Guarantee, provided always that the exercise and/or enforcement of any of these rights in conjunction with the rights, powers and remedies hereby conferred shall not result in the Bank obtaining reimbursement or indemnification which exceeds the aggregate of all amounts and matters in respect of which the Bank is entitled to reimbursement and indemnification pursuant to Section 2.01(a)(i) and (ii) above.

(d) The Bank shall not be obliged before taking steps to enforce any rights conferred on it by this Agreement or exercising any of its rights, powers and remedies hereunder, the Bonds, the Fiscal Agency Agreement or any other related agreement or by law: (i) to take action or obtain any judgment or award in any court or other tribunal of competent jurisdiction against any other person or entity (including persons or entities from whom it may seek reimbursement or indemnity in respect of sums

paid out under the IBRD Guarantee); or (ii) to enforce or seek to enforce any other rights it may have against Lebanon or its rights against any other person or entity.

Section 2.04. Without limitation or restriction upon any of its other obligations hereunder, Lebanon hereby undertakes to punctually perform all of its obligations under the Bonds, the Fiscal Agency Agreement and any related agreement, and Lebanon further agrees that any amount due to the Bank by it hereunder shall be deemed, for purposes of Sections 6.02(b)(iii) and 7.01(d)(ii) of the General Conditions, to be an amount due in consequence of a guarantee extended by the Bank to a third party with the agreement of Lebanon.

ARTICLE III

Other Covenants of Lebanon

Section 3.01. Lebanon hereby covenants and warrants to the Bank as follows:

(a) Save only as provided in Sections 3.01(b) and 3.03 below, the proceeds of the Bonds shall be used by Lebanon and/or EDL exclusively for the purposes of financing Eligible Expenditures. Lebanon shall ensure that the goods and services required for the Project and to be financed out of the proceeds of the Bonds: (i) shall be procured with due regard to considerations of quality, reliability, economy and efficiency, in accordance with procedures satisfactory to the Bank; and (ii) shall be applied exclusively for the purposes of the Project.

(b) On the Closing Date, Lebanon shall use such amount from the proceeds of the Bonds as is necessary to pay: (i) to the Bank the guarantee fee specified in Section 2.02 of this Agreement; and (ii) those amounts payable to the Managers, the Fiscal Agent, the Paying Agents, the Transfer Agents, the Listing Agent, the Registrar and the advisors engaged by Lebanon for the purposes of the issue of the Bonds as specified in the Subscription Agreement or as otherwise agreed with such Managers, Agents, Registrar and advisors, as the case may be.

Section 3.02. Subject only to the provisions of Section 3.03 of this Agreement, the proceeds of the Bonds shall be used and managed by Lebanon in accordance with the following provisions:

(a) Lebanon shall, exclusively for purposes of the Project and to meet Eligible Expenditures, open and maintain in its name in the Central Bank, on terms and conditions satisfactory to the Bank, including adequate and legally effective protection against

set-off, seizure or attachment, a separate, freely convertible and operable U.S. Dollars account (the "Dollar Special Account") in which it shall, on the Closing Date, deposit the Net Bond Proceeds;

(b) Lebanon agrees that the Net Bond Proceeds held in the Dollar Special Account shall be withdrawn therefrom exclusively for purposes of Lebanon's on-lending said proceeds to EDL to meet Eligible Expenditures under a loan agreement entered or to be entered into between Lebanon and EDL on or before the date of this Agreement, under terms and conditions satisfactory to the Bank including, without limitation, a covenant by EDL to deliver a satisfactory report addressed jointly to Lebanon and to the Bank, within fifteen (15) days after the end of each calendar quarter commencing after the date of the first advance by Lebanon to EDL under the Subsidiary Loan Agreement, specifying for the preceding calendar quarter the advances received by EDL from Lebanon for Eligible Expenditures using funds on deposit in the Dollar Special Account, including a complete description of all such Eligible Expenditures;

(c) Lebanon agrees that it shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of Lebanon and the Bank and to accomplish the objectives of the Project and, except as the Bank may otherwise agree, Lebanon agrees not to assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof; and

(d) Lebanon agrees that, except as the Bank and Lebanon shall otherwise agree, none of the Net Bond Proceeds held in the Dollar Special Account shall be withdrawn for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Section 3.03. Pending utilization thereof for Eligible Expenditures, Lebanon, acting through and represented by the Ministry of Finance of Lebanon, shall have the right to invest all or any part of the Net Bond Proceeds held in the Dollar Special Account in Eligible Investments, provided, however, that:

(a) such right may only be exercised by Lebanon during the period from the Closing Date to the date being the first anniversary thereof, or such later date as the Bank in its discretion may establish by notice in writing to Lebanon;

(b) Lebanon shall ensure the timely availability of a sufficient amount of U.S. Dollars in the Dollar Special Account and shall on-lend to EDL on a timely basis so as to enable EDL to meet Eligible Expenditures no later than the date when such Eligible Expenditures are due and payable by EDL in accordance with the terms and conditions of the agreements pursuant to which such payment obligations are created or assumed;

(c) advances by Lebanon to EDL pursuant to the Subsidiary Loan Agreement to meet Eligible Expenditures shall be in U.S. Dollars only;

(d) prior to the date of withdrawal from the Dollar Special Account to fund any advance by Lebanon to EDL pursuant to the Subsidiary Loan Agreement, no interest shall be due from or payable by EDL to Lebanon by reason or in respect of the issuance by Lebanon of the Bonds;

(e) within fifteen (15) days after the end of each calendar quarter commencing after the date hereof, Lebanon shall submit to the Bank a report prepared by the Ministry of Finance, satisfactory to the Bank, specifying for the preceding calendar quarter the withdrawals made from the Dollar Special Account; the Eligible Investments made using the proceeds of such withdrawals, including a description of such Eligible Investments; and the disposition of any Eligible Investments, and the amount of the proceeds thereof deposited into the Dollar Special Account; and

(f) as at any date, the funds remaining on deposit in the Dollar Special Account, plus the sum of all withdrawals made from time to time from the Dollar Special Account in accordance with the terms of this Agreement, if any, shall equal not less than the initial Net Bond Proceeds and, in the event of any shortfall at any time, Lebanon shall, promptly following written notice from the Bank, deposit in the Dollar Special Account an amount equal to such shortfall to replenish said Account.

Section 3.04. Lebanon shall ensure at all times that it:

(a) (i) maintains records and separate accounts adequate to identify the expenditures financed out of the proceeds of the Bonds, and (ii) responds promptly to any reasonable request from the Bank concerning the expenditure of the proceeds of the Bonds and the goods and services financed out of such proceeds including, without limitation, the provision of all such documents and other evidence as shall be adequate in the opinion of the Bank to establish that amounts

disbursed from the Dollar Special Account were disbursed for Eligible Expenditures as contemplated in Sections 3.01 and 3.02 above, respectively, or for Eligible Investments as contemplated in Section 3.03; and

(b) (i) causes the records and accounts referred to in paragraph (a) of this Section and those for the Dollar Special Account for each fiscal year to be audited (in accordance with appropriate auditing principles consistently applied) by independent auditors acceptable to the Bank; (ii) furnishes to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of said accounts for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnishes promptly to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank may from time to time reasonably request.

Section 3.05. (a) If at any time the Bank determines that any sum paid out of the Dollar Special Account was paid out in respect of any expenditure which was not an Eligible Expenditure or in respect of an Eligible Investment (whether or not such expenditure was made by Lebanon or EDL), or was not justified by the evidence furnished pursuant to Section 3.04 above, then Lebanon shall, promptly following written notice from the Bank, deposit in the Dollar Special Account an amount equal to such sum to replenish said account.

(b) If at any time the Bank determines that any sum outstanding in the Dollar Special Account will not be required to cover further payments in respect of Eligible Expenditures, then Lebanon may, following receipt of written notice to that effect from the Bank and under terms and conditions satisfactory to the Bank, use such funds for expenditures relating to the establishment of an enabling environment for private sector involvement in the Lebanese power sector described in Schedule 2, Part B (i) of the IBRD Loan Agreement, as such expenditures are actually incurred and which have not been financed out of the proceeds of the IBRD Loan.

Section 3.06. Lebanon shall obtain the prior written consent of the Bank before agreeing to any change in the terms and conditions of the Bonds, the Fiscal Agency Agreement or any other related agreement.

ARTICLE IV

Remedies of the Bank

Section 4.01. If Lebanon fails to perform any of its obligations under this Agreement, then, and in addition to any other rights and remedies it may have, the Bank, at its option, may, by notice to Lebanon, suspend or cancel, in whole or in part, Lebanon's right to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association.

ARTICLE V

Effective Date

Section 5.01. This Agreement shall come into full force and effect upon signature by the parties.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. The Minister of Finance of Lebanon or his duly authorized delegate is hereby designated as representative of Lebanon for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For Lebanon:

Minister of Finance
Ministry of Finance
Beirut, Lebanon

Telex:

923 23513

For the Bank:

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

Cable Address:
Telex:

INTBAFRAD

248423 (MCI),

or

Washington, D. C.
64145 (MCI)

Attention: Director,
Middle East and North Africa

Region

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, on the day and year first above written.

REPUBLIC

THE LEBANESE

B. Chatah

By /s/ Mohamad
Authorized Representative

BANK FOR
AND DEVELOPMENT

INTERNATIONAL
RECONSTRUCTION

Dervis

By /s/ Kemal
Regional Vice President
Middle East and North Africa

