

CONFORMED COPY

LOAN NUMBER 7940-ID

Project Agreement

(Power Transmission Development Project)

between

INTERNATIONAL BANK

FOR

RECONSTRUCTION AND DEVELOPMENT

and

PT PERUSAHAAN LISTRIK NEGARA

Dated November 18, 2010

PROJECT AGREEMENT

AGREEMENT dated November 18, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and PERUSAHAAN PERSEROAN LISTRIK NEGARA (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between REPUBLIC OF INDONESIA (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objective of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is its President Director.
- 3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Jalan Trunojoyo Blok M I / 135
Jakarta 12160
Kebayoran Baru
Indonesia

Telex:	Facsimile:
4715647248	62-21-720-4929

AGREED at Jakarta, Indonesia, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCITON AND DEVELOPMENT

By: /s/ Chris Hoban

Authorized Representative

PT PERUSAHAAN LISTRIK NEGARA

By: /s/ Nasri Sebayang

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall be responsible for Project implementation, management, and monitoring and evaluation, including administrative and financial management, disbursement, and procurement, in accordance with the following institutional arrangements.

Departments of Finance, Planning and Technology, and Strategic Procurement

2. The Project Implementing Entity shall maintain, throughout Project implementation, the Departments of Finance, Planning and Technology, and Strategic Procurement with an adequate institutional framework, functions, and resources, including competent personnel in adequate numbers, as shall be required for purposes of Project implementation.
3. The Department of Planning and Technology, particularly the Project Management Unit, shall be responsible for Project implementation, management, and monitoring and evaluation, including administrative management, the Department of Finance for Project financial management and disbursement, and the Department of Strategic Procurement, particularly the Procurement Committee, for Project procurement.
4. The Project Implementing Entity shall maintain, throughout Project implementation, the Project Management Unit, under the Department of Planning and Technology, and with an adequate institutional framework, functions, and resources, including competent personnel in adequate numbers, as shall be required for purposes of Project implementation.
5. The Project Implementing Entity shall establish, no later than one (1) month after the Effective Date, and thereafter maintain throughout Project implementation, the Procurement Committee, under the Department of Strategic Procurement, chaired by a manager of said Department, and with an adequate composition, institutional framework, functions, and resources, as shall be required for purposes of Project implementation.

6. The Project Implementing Entity shall designate or appoint to the Department of Planning and Technology, no later than three (3) months after the Effective Date, and thereafter maintain throughout Project implementation, a Project management consultant, with qualifications, experience, and terms of reference satisfactory to the Borrower and the Bank for purposes of Project implementation, and who shall be responsible for coordination between, and the provision of technical support to, the Departments of Finance, Planning and Technology, and Strategic Procurement and the Regional Project Offices, including with respect to implementation of the Governance and Accountability Framework.

Regional Project Offices

7. The Project Implementing Entity shall maintain, throughout Project implementation, the Regional Project Offices in Java and South-Central Sumatra, with an adequate institutional framework, functions, and resources, including competent personnel in adequate numbers, as shall be required for purposes of Project implementation.
8. The Regional Project Offices shall be responsible for regional-level technical supervision of the Project.

B. Anti-Corruption

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

C. Plan and Manual

1. The Project Implementing Entity:
 - (a) shall: (i) adopt (A) a Project Implementation Plan, agreed with the Bank and setting out implementation, organizational, administrative, monitoring and evaluation, environmental and social monitoring and mitigation, and financial management and disbursement arrangements and a time-bound roadmap for purposes of Project implementation, and the Governance and Accountability Framework, and (B) a Procurement Manual, agreed with the Bank and setting out procurement arrangements for purposes of Project implementation; and (ii) thereafter ensure that the Project is carried out in accordance with such Plan and Manual; and

- (b) except as the Bank shall otherwise agree in writing, shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.
2. In the event of any conflict between the provisions of such Plan or Manual and those of this Agreement, the latter shall prevail.

D. Annual Reviews

The Project Implementing Entity shall review jointly with the Borrower and the Bank, no later than one (1) month after the transmittal of each Project Report to the Bank, such Report, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such Report and the Borrower's and the Bank's views on the matter.

E. Subprojects

No proposed Subproject shall be eligible for financing under the Project unless, on the basis of a review and appraisal conducted in accordance with the provisions of this Part E and the Project Implementation Plan, the Project Implementing Entity has determined that the proposed Subproject satisfies eligibility criteria satisfactory to the Bank, described in further detail in the Project Implementation Plan, which shall include the following:

- (a) the Subproject will contribute to the achievement of the objective of the Project;
- (b) the Subproject is consistent with the relevant technical, administrative, environmental, and social standards and national sector policies;
- (c) all relevant approvals have been obtained from the Borrower for purposes of the Subproject, including with respect to the feasibility study and any environmental requirements;
- (d) the Subproject is the least-cost option as compared to alternative investments in the area;
- (e) the Subproject has an economic rate of return of at least ten percent (10%), calculated on the basis of methodology acceptable to the Bank;

- (f) wherever required in terms of the Environmental Management Plan, any site-specific addendum to the Environmental Management Plan for purposes of the Subproject has been prepared in form and substance satisfactory to the Bank, adopted, and locally disclosed;
- (g) the Subproject does not require land acquisition except as set out in the Land Acquisition and Resettlement Action Plan; and
- (h) financing, procurement, and implementation plans in form and substance satisfactory to the Bank have been prepared and adopted for purposes of the Subproject.

F. Safeguards

1. The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Environmental Management and the Land Acquisition and Resettlement Action Plans and any site-specific addenda to the Environmental Management Plan, and, except as the Bank shall otherwise agree in writing, the Project Implementing Entity shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.
2. Wherever required in terms of the Environmental Management Plan, the Project Implementing Entity shall, for the purposes of any Subproject, and prior to implementation thereof, proceed to have a site-specific addendum to such Plan,
 - (a) prepared in form and substance satisfactory to the Borrower and the Bank,
 - (b) except as otherwise agreed with the Bank, submitted to the Bank for review and approval, and
 - (c) thereafter, adopted and locally disclosed.
3. The Project Implementing Entity shall ensure that each contract for a Subproject includes the obligation of the relevant contractor to implement and monitor and evaluate the Environmental Management Plan, any site-specific addenda to such Plan, and the Land Acquisition and Resettlement Action Plan.
4. The Project Implementing Entity shall take all measures necessary on its part to regularly collect, compile, and submit to the Bank, as part of the Project Reports,

information on the status of compliance with the Environmental Management and the Land Acquisition and Resettlement Action Plans and any site-specific addenda to the Environmental Management Plan, giving details of:

- (a) measures taken in furtherance of such Plans and addenda;
 - (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such Plans and addenda; and
 - (c) remedial measures taken or required to be taken to address such conditions.
5. The Project Implementing Entity shall ensure that the Regional Project Offices are responsible for the implementation and monitoring and evaluation of such Plans and addenda in their respective provinces.
6. In the event of any conflict between the provisions of any such Plan or addendum and those of this Agreement, the latter shall prevail.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each such Project Report shall cover the period of one (1) calendar year, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

No.	Indicator
1.	Electricity sales in Project area (GWh / year): <ul style="list-style-type: none"> (a) Jakarta and Central Java (b) South-Central Sumatra
2.	Transmission losses in Project area (Percentage):

	<p>(a) Java-Bali</p> <p>(b) South-Central Sumatra</p>
3.	<p>Reliability of power system in Java:</p> <p>(a) Transformer outage frequency (number of times / transformer / year): 500 / 150 kV, 150 / 20 kV</p> <p>(b) Transformer outage duration (hours / transformer / year): 500 / 150 kV, 150 / 20 kV</p>
4.	<p>Reliability of power system in South-Central Sumatra:</p> <p>(a) Transformer outage frequency (number of times / transformer / year): 150 / 20 kV</p> <p>(b) Transformer outage duration (hours / transformer / year): 150 / 20 kV</p>

2. The Project Implementing Entity shall provide to the Borrower not later than nine (9) months prior to the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions, all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Borrower and the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Bank, not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Borrower and the Bank.
3. The Project Implementing Entity shall have its financial statements referred to in paragraph 1 above audited by independent auditors acceptable to the Borrower and the Bank, in accordance with consistently applied auditing standards acceptable to the Borrower and the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be

furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

4. (a) Except as the Bank shall otherwise agree in writing, the Project Implementing Entity shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Project Implementing Entity shows that the estimated net revenues of the Project Implementing Entity for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of the Project Implementing Entity in such year on all debt of the Project Implementing Entity, including the debt to be incurred.
- (b) For the purposes of this Section:
 - (i) The term “debt” means any indebtedness of the Project Implementing Entity maturing by its terms more than one (1) year after the date on which it is originally incurred.
 - (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement, or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (iii) The term “net revenues” means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes, and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges, and interest and other charges on debt.
 - (iv) The term “net non-operating income” means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

- (v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt, except for interest charges incurred in financing capital expenditures during construction.
- (vi) The term “reasonable forecast” means a forecast prepared by the Project Implementing Entity not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Project Implementing Entity accept as reasonable and as to which the Bank has notified the Project Implementing Entity of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Implementing Entity.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section III. Procurement

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