
LOAN NUMBER 2808-NEP(SF)

GRANT NUMBER 0270-NEP(SF)

PROJECT AGREEMENT

(Electricity Transmission Expansion and Supply Improvement Project)

between

ASIAN DEVELOPMENT BANK

and

NEPAL ELECTRICITY AUTHORITY

DATED 23 March 2012

NEP 41155

PROJECT AGREEMENT

PROJECT AGREEMENT dated 23 March 2012 between ASIAN DEVELOPMENT BANK ("ADB") and the NEPAL ELECTRICITY AUTHORITY ("NEA").

WHEREAS

(A) by a Financing Agreement of even date herewith between Nepal (the "Beneficiary") and ADB, ADB has agreed to make to the Beneficiary (i) a loan in various currencies equivalent to thirty five million five hundred fifty thousand Special Drawing Rights (SDR35,550,000) and (ii) a grant in the amount of nineteen million Dollars (\$19,000,000) on the terms and conditions set forth in the Financing Agreement, but only on the condition that the proceeds of the Loan be made available to NEA and that NEA agree to undertake certain obligations towards ADB as set forth in this Project Agreement;

(B) the Beneficiary has also applied to ADB for a grant financed by the Government of Norway, in an amount equivalent to approximately twenty five million Dollars (\$25,000,000); to be administered by ADB (the "Norway Grant," and together with the ADB Grant, the "Grants") pursuant to the Norway Grant Agreement; and

(C) NEA, in consideration of ADB entering into the Financing Agreement with the Beneficiary, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. (a) Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Financing Agreement, the Loan Regulations (as so defined) and the Grant Regulations (as so defined) have the respective meanings therein set forth, except that for purposes of this Project Agreement, the term "Subsidiary Agreements" means collectively the Subsidiary Loan Agreement and the Subsidiary Equity Investment Agreement.

ARTICLE II

Particular Covenants

Section 2.01. (a) NEA shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, engineering, energy and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, NEA shall perform all obligations set forth in the Financing Agreement to the extent that they are applicable to NEA.

Section 2.02. NEA shall make available, promptly as needed, the funds, facilities, services, land and other resources as required, in addition to the proceeds of the Loan and the Grants, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, NEA shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, NEA shall procure all items of expenditures to be financed out of the proceeds of the Loan and the Grants in accordance with the provisions of Schedule 4 to the Financing Agreement and Schedule 2 to the Norway Grant Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Beneficiary and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. NEA shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. NEA shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) NEA shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, NEA undertakes to insure, or cause to be insured, the Goods to be imported for the Project and to be financed out of the proceeds of the Loan or the Grants against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.

Section 2.06. NEA shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan or the Grants, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and NEA shall cooperate fully to ensure that the purposes of the Loan and the Grants will be accomplished.

(b) NEA shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Subsidiary Agreements, or the accomplishment of the purposes of the Loan and the Grants.

(c) ADB and NEA shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, NEA, the Loan and the Grants.

Section 2.08. (a) NEA shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the Grants and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of NEA; and (v) any other matters relating to the purposes of the Loan and the Grants.

(b) Without limiting the generality of the foregoing, NEA shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, NEA shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by NEA of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan and the Grants.

Section 2.09. (a) NEA shall (i) maintain separate accounts for the Project; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than 9 months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and the Grant proceeds and compliance with the financial covenants of the Financing Agreement and the Project Agreement as well as on the use of the procedure for statement of expenditures), all in the English language. NEA shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) In addition to annual audited financial statements referred to in subsection (a) hereinafter, NEA shall furnish to ADB:

- (i) within 45 days after the end of the first 6 months of each fiscal year, unaudited semiannual financial statements on its operations for such 6 month period;
- (ii) within 3 months after the end of each fiscal year, unaudited annual financial statements on its operations for such fiscal year; and

- (iii) within 3 months after the end of each fiscal year, financial projections of its operations (including income statements, balance sheets and cash flow statements) for the ensuing 2 years.

(c) NEA shall enable ADB, upon ADB's request, to discuss NEA's financial statements and its financial affairs from time to time with the auditors appointed by NEA pursuant to subsection (a) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of NEA unless NEA shall otherwise agree.

Section 2.10. NEA shall enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.

Section 2.11. (a) NEA shall, promptly as required, take all action within its powers to maintain its organizational existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.

(b) NEA shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.

(c) NEA shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound applicable technical, financial, business, engineering, energy, development, operational and maintenance practices.

Section 2.12. Except as ADB may otherwise agree, NEA shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, NEA shall apply the proceeds of the Loan and the proceeds of the Grant to the financing of expenditures on the Project in accordance with the provisions of the Financing Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, NEA shall duly perform all its obligations under the Subsidiary Agreements, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Agreements.

Section 2.15. NEA shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of the NEA Act, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. NEA shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Financing Agreement comes into force and effect. ADB shall promptly notify NEA of such date.

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Financing Agreement.

ARTICLE IV

Miscellaneous

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2338.

For NEA

Managing Director
Nepal Electricity Authority
Durbar Marg
Kathmandu, Nepal

Facsimile Number:

+97714153009.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 7.01 of the Financing Agreement by or on behalf of NEA may be taken or executed by its Managing Director or by such other person or persons as he or she shall so designate in writing notified to ADB.

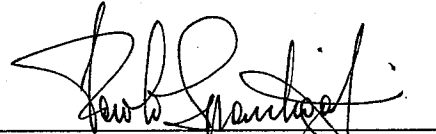
(b) NEA shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names as of the day and year first above written, and to be delivered at the principal office of ADB.

ASIAN DEVELOPMENT BANK

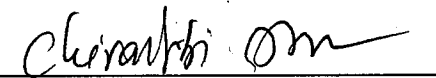
By



PAOLO SPANTIGATI
Officer-in-Charge
Nepal Resident Mission

NEPAL ELECTRICITY AUTHORITY

By



CHIRANJIBI SHARMA PAUDEL
General Manager