
LOAN NUMBERS 2713/2714(SF)-PNG

PROJECT AGREEMENT

(Town Electrification Investment Program - Tranche 1)

between

ASIAN DEVELOPMENT BANK

and

PNG POWER LIMITED

DATED 25 FEBRUARY 2011

PNG 41504

PROJECT AGREEMENT

PROJECT AGREEMENT dated 25 February 2011 between ASIAN DEVELOPMENT BANK ("ADB") and PNG POWER LIMITED ("PPL").

WHEREAS

(A) by a loan agreement of even date herewith between the Independent State of Papua New Guinea ("Borrower") and ADB ("Ordinary Operations Loan Agreement"), ADB has agreed to make to the Borrower a loan of forty million nine hundred thousand Dollars (\$40,900,000) ("Ordinary Operations Loan") on the terms and conditions set forth in the Ordinary Operations Loan Agreement;

(B) by a loan agreement of an even date herewith between the Borrower and ADB ("Special Operations Loan Agreement", and together with the Ordinary Operations Loan Agreement, the "Loan Agreements"), ADB has agreed to make to the Borrower a loan of ten million five hundred sixty five thousand Special Drawing Rights (SDR10,565,000) ("Special Operations Loan", and together with the Ordinary Operations Loan, the "Loans") on the terms and conditions set forth in the Special Operations Loan Agreement;

(C) ADB has agreed to make the Loans only on the condition that the proceeds of the Loans be made available to PPL and that PPL agrees to undertake certain obligations towards ADB as hereinafter set forth in this Project Agreement; and

(D) PPL, in consideration of ADB entering into the Loan Agreements with the Borrower, has agreed to undertake the obligations set forth in this Project Agreement;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreements and in the Loan Regulations (as defined in each of the Loan Agreements) have the respective meanings therein set forth.

ARTICLE II

Particular Covenants

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

(b) In the carrying out of the Project and operation of the Project facilities, PPL shall perform all obligations set forth in each of the Loan Agreements to the extent that they are applicable to PPL.

Section 2.02. PPL shall make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loans, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, PPL 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, all Goods, Works and Consulting Services shall be procured in accordance with the provisions of Schedule 4 to the Special Operations Loan Agreement. ADB may refuse to finance a contract where Goods, Works or Consulting Services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. PPL shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. PPL 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) PPL shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, PPL 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 Loans 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. PPL shall maintain, or cause to be maintained, records and accounts adequate to identify the Goods, Works and Consulting Services and other items of expenditure financed out of the proceeds of the Loans, 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 PPL shall cooperate fully to ensure that the purposes of the Loans will be accomplished.

(b) PPL 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 accomplishment of the purposes of the Loans.

(c) ADB and PPL 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, PPL and the Loans.

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

(b) Without limiting the generality of the foregoing, PPL shall furnish to ADB quarterly 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 quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(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, PPL 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 PPL of its obligations under this Project Agreement and the accomplishment of the purposes of the Loans.

Section 2.09. (a) PPL shall (i) maintain separate accounts for the Project and for its overall operations; (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 6 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 proceeds of the Loans and compliance with the financial covenants of the Loan Agreements), all in the English language. PPL 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) PPL shall enable ADB, upon ADB's request, to discuss PPL's financial statements and its financial affairs from time to time with the auditors appointed by PPL pursuant to Section 2.09(a) hereabove, 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 PPL unless PPL shall otherwise agree.

Section 2.10. PPL shall enable ADB's representatives to inspect the Project, the Goods and Works, all other plants, sites, properties and equipment of the PPL, and any relevant records and documents.

Section 2.11. (a) PPL shall, promptly as required, take all action within its powers to maintain its corporate 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 business.

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

(c) PPL 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 applicable technical, financial, business, and development, operations and maintenance practices.

Section 2.12. Except as ADB may otherwise agree, PPL 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, PPL shall apply the proceeds of the Loans to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreements and this Project Agreement, and shall ensure that all Goods, Works and Consulting Services financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. PPL shall inform ADB of any proposal to amend, suspend or repeal any provision of its articles of incorporation that may affect the implementation of the Project to enable ADB to comment upon the impact of the Project.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which both of the Loan Agreements shall come into force and effect. ADB shall promptly notify PPL of such date.

Section 3.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreements shall terminate in accordance with its terms.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under either or both of the Loan Agreements.

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) 636-2446

For PPL:

Chief Executive Officer
PNG Power Limited
CNR Wards Road / Cordia Street
Hohola, National Capital District
Papua New Guinea

Facsimile Number:

(675) 325 0008.

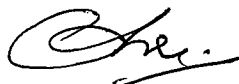
Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of PPL may be taken or executed by its Chief Executive Officer or by such other person or persons as he shall so designate in writing notified to ADB.


(b) PPL shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, 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 
ALLAN LEE
Officer-in-Charge
Papua New Guinea Resident Mission

PNG POWER LIMITED
By 
TONY KOIBF
Chief Executive Officer
