
LOAN NUMBER 2261-CAM (SF)

PROJECT AGREEMENT
(Second Power Transmission and Distribution Project)

between

ASIAN DEVELOPMENT BANK

and

ELECTRICITÉ DU CAMBODGE

DATED 1 DECEMBER 2006

PAG: CAM 37041

PROJECT AGREEMENT

PROJECT AGREEMENT dated 1 December 2006 between ASIAN DEVELOPMENT BANK ("ADB") and ELECTRICITÉ DU CAMBODGE ("EDC").

WHEREAS

(A) by a Loan Agreement of even date herewith between the Kingdom of Cambodia (the "Borrower") and ADB, ADB has agreed to make to the Borrower a loan in various currencies equivalent to thirteen million five hundred and nineteen thousand Special Drawing Rights (SDR 13,519,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that the proceeds of the Loan be made available to EDC and that EDC agree to undertake certain obligations towards ADB as set forth in this Project Agreement; and

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

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Particular Covenants

Section 2.01. (a) EDC shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and public utility practices.

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

Section 2.02. EDC 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 Loan, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, EDC 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 to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to the 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. EDC shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. EDC 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) EDC shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the 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, EDC 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 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. EDC 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 Loan, 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 EDC shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) EDC 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 Loan Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and EDC 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, EDC and the Loan.

Section 2.08. (a) EDC shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan 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 EDC; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, EDC 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 three (3) months thereafter or such later date as ADB may agree for this purpose, EDC 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 EDC of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) EDC 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 Loan proceeds and compliance with the financial covenants of the Loan Agreement and this Project Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. EDC 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) EDC shall enable ADB, upon ADB's request, to discuss EDC's financial statements and its financial affairs from time to time with the auditors, appointed by EDC 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 EDC unless EDC shall otherwise agree.

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

Section 2.11. (a) EDC 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) EDC shall at all times conduct its business in accordance with sound administrative, financial, environmental and public utility practices, and under the supervision of competent and experienced management and personnel.

(c) EDC 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 administrative, financial, engineering, environmental, public utility, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, EDC 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, EDC shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement 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. Except as ADB may otherwise agree, EDC shall duly perform all its obligations under the Subsidiary Loan Agreement, 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 Loan Agreement.

Section. 2.15. (a) Except as ADB shall otherwise agree, and commencing in fiscal year 2007, and maintained thereafter, EDC shall not incur any Debt unless the Free Cash Flows of EDC for each fiscal year during the term of the Debt to be incurred shall be at least 1.3 times the estimated Debt Service Requirements of EDC in such year on all Debt of EDC. The Debts shall include the debt to be incurred and no event has occurred since the date of the forecast which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition of future operating results of EDC.

(b) For the purposes of this Section:

- (i) The term "EDC's Operations" refers to the entire operations of EDC.
- (ii) The term "Debt" means any indebtedness of EDC maturing by its terms more than one year after the date on which it is originally incurred.
- (iii) 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.
- (iv) "Free Cash Flows" means the difference between:
 - (A) the sum of revenues from all sources related to Operations and Net Non-operating Income, after making adequate provisions for uncollectible Debts; and

- (B) the sum of all expenses related to Operations including administration, maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges, movements in Working Capital, and interest and other charges on debt.
- (v) "Net Non-operating Income" means the difference between:
 - (A) revenues from all sources, including extraordinary gains, other than those related to operations; and receipts relating to the disposal of physical assets; and
 - (B) expenses including taxes and payments in lieu of taxes, and including extraordinary losses, incurred in the generation of revenues in (v)(A) above; and payments for the purchase of physical assets.
- (vi) The term "Working Capital" means the difference between Current Assets and Current Liabilities at the end of each fiscal year.
- (vii) The term "Current Assets" means all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.
- (viii) The term "Current Liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (ix) 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.
- (x) 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 ADB.

Section 2.16. (a) For the purposes of this Project Agreement, all financial calculations, ratios and financial covenants shall be applied in respect of EDC's Operations only.

(b) Except as ADB shall otherwise agree, EDC shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be at maximum 70:30 (70% debt to 30% equity), and such ratio shall be maintained until fiscal year 2010.

(c) For purposes of this Section:

- (i) The term "debt" means any indebtedness of EDC maturing by its terms more

than one 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 conditional sale or transfer or financing lease 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. Financial liabilities incurred by a borrower who is a lessee under finance leasing agreements may also be included as debt.
- (iii) The term “equity” means the sum of the total unimpaired paid-up capital, retained earnings and reserves of EDC not allocated to cover specific liabilities.
- (iv) Whenever for 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 currency is, at the time of 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 ADB.

Section 2.17. (a) For the purposes of this Project Agreement, all financial calculations, ratios and financial covenants shall be applied in respect of EDC's Operations only.

(b) Except as ADB shall otherwise agree, EDC shall produce for each of its fiscal years after its fiscal year ending on 31 December 2007, total revenues equivalent to/or not less than the sum of (i) its total operating expenses; and (ii) the amount by which debt service requirements, excluding the provision for depreciation.

(c) Before 31 March in each of its fiscal years, EDC shall, on the basis of forecast prepared by EDC and satisfactory to ADB, review whether it would meet the requirements set forth in paragraph (b) in respect of such year and the next following fiscal year and shall furnish to ADB the results of such review upon its completion.

(d) If any such review shows that EDC would not meet the requirements set forth in paragraph (b) for EDC's fiscal years covered by such review, EDC shall promptly take all necessary measures (including without limitation, filing applications with the Electricity Authority of Cambodia seeking a tariff/rate increase) in order to meet such requirements.

(e) For purposes of this Section:

- (i) The term “total revenues” means the sum of total operating revenues and net non-operating income, but excludes all government grants, subsidies and transfers income.
- (ii) The term “total operating revenues” means revenues from all sources related to operations, after making adequate provisions for uncollectible debts.
- (iii) 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 (iii)(a) above.
- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and excluding provision for depreciation on a straight-line basis at a rate of not less than four (4) percent per annum of the average current gross value of EDC's fixed assets in operation, or other basis acceptable to ADB, interest and other charges on debt.
- (v) The average current gross value of EDC's fixed assets in operation shall be calculated as one half of the sum of the gross value of EDC's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to ADB.
- (vi) 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.
- (vii) The term "debt" means any indebtedness of EDC maturing by its terms more than one year after the date on which it is originally incurred.
- (viii) 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. Financial liabilities incurred by a borrower who is a lessee under finance leasing agreements may also be included as debt.
- (ix) Whenever for the purposes of the 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 ADB.
- (x) The terms "operations" or "operating" refer to the entire operations of EDC.

Section 2.18. (a) Except as ADB may otherwise agree, EDC shall ensure that all necessary action is taken so that EDC's total accounts receivable is maintained at a level that does not exceed the equivalent of three (3) months average electricity sales revenue.

- (b) For the purposes of this Section 2.18, "accounts receivable" is defined as all electricity sales to consumers which have been billed but not yet collected. "Average electricity sales" is based on the simple average of the previous twelve (12) month period.

Section 2.19 EDC shall take all necessary measures to maintain distribution losses in its transmission and distribution network at a level not exceeding 16 percent in FY 2007 and in each subsequent fiscal year.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement shall come into force and effect. ADB shall promptly notify EDC 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 Loan 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 or by mail, telegram, cable, telex, facsimile or radiogram 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
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2336

For EDC

Electricité du Cambodge
 Street 19, Wat Phnom
 Daun Penh District
 Phnom Penh
 Cambodia

Facsimile Number:

(855) 23 426-018

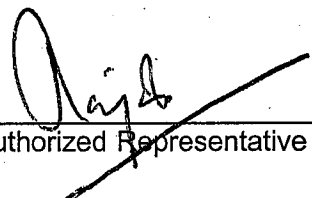
Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 7.01 of the Loan Agreement by or on behalf of EDC may be taken or executed by its Managing Director or by such other person or persons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

(b) EDC 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 and to be delivered at the principal office of ADB, as of the day and year first above written.

ASIAN DEVELOPMENT BANK

By 
 Authorized Representative

ELECTRICITÉ DU CAMBODGE

By 
 HEU VANTHAN
 Authorized Representative