

CONFORMED COPY

CREDIT NUMBER 3019 ET

Project Agreement

(Second Energy Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ETHIOPIAN ELECTRIC POWER CORPORATION

Dated January 25, 1998

CREDIT NUMBER 3019 ET

PROJECT AGREEMENT

AGREEMENT, dated January 25, 1998, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and Ethiopian Electric Power Corporation (EEPCO).

WHEREAS: (A) by the Development Credit Agreement of even date herewith between Federal Democratic Republic of Ethiopia (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to one hundred forty-six million one hundred thousand Special Drawing Rights (SDR 146,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that EEPCO agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and EEPCO, a portion of the proceeds of the Credit provided for under the Development Credit Agreement will be made available to EEPCO on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS EEPCO in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Fiscal Year" and "FY" means EEPKO's fiscal year which starts on July 8 of each calendar year and ends on July 7 of the following calendar year; and

(b) "Panel of Experts" means the panel established by EELPA's Board of Directors on February 27, 1996.

ARTICLE II

Execution of the Project

Section 2.01. (a) EEPKO declares its commitment to the objective of the Project, as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out EEPKO's Parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for EEPKO's Parts of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Association and EEPKO shall otherwise agree, EEPKO shall: (i) carry out EEPKO's Parts of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement; and (ii) implement the Environmental Mitigation Plan and the Resettlement Plan in accordance with the timetables contained therein with due diligence and efficiency.

Section 2.02. Except as the Association shall otherwise agree, procurement of the works, goods and consultants' services required for EEPKO's Parts of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. (a) EEPKO shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement and EEPKO's Parts of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, EEPKO shall:

(i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and EEPKO, a plan for the continued achievement of the objective of EEPKO's Parts of the Project;

(ii) not later than six (6) months prior to the completion of the Project, prepare under guidelines acceptable to the Association a plan designed to ensure the regular inspection and maintenance of the Gilgel Gibe dam and its appurtenant structures; and

(iii) afford the Association a reasonable opportunity to exchange views with the Borrower and EEPKO on said plans.

Section 2.04. EEPKO shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, EEPKO shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) EEPKO shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of

its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

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

Section 2.06. EEPCO shall maintain until the completion of the Project, the Panel of Experts with composition and terms of reference acceptable to the Association.

ARTICLE III

Management and Operations of EEPCO

Section 3.01. (a) EEPCO shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical, commercial, environmental and power utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) Without limitation upon the provisions of paragraph (a) of this Section, EEPCO shall, not later than June 30, 1998, furnish to the Association, for its review and comments, a draft human resource development plan, which shall be designed to improve the performance of its staff, including new job descriptions and a training program.

Section 3.02. EEPCO shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, technical, environmental, and public utilities practices.

Section 3.03. EEPCO shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) EEPCO shall maintain records and accounts adequate to reflect in accordance with sound accounting practices expenditures in respect of EEPCO's Parts of the Project.

(b) EEPCO shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including those for the Special Account A, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available but in any case not later than nine (9) months after the end of its Fiscal Years 1997 and 1998 and six (6) months after the end of each of its subsequent Fiscal Years: (A) certified copies of its financial statements 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 Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, EEPCO shall

produce funds from internal sources equivalent to not less than 10% for FY 1998, 15% for FY 1999, and 25% for FY 2000, of the annual average of EEPCO's capital expenditures incurred, or expected to be incurred, for three years, comprising the Fiscal Year in question, the Fiscal Year immediately preceding and (on the basis of estimates acceptable to the Association) the following Fiscal Year.

(b) Before March 31 in each of its Fiscal Years, EEPCO shall, on the basis of forecasts prepared by EEPCO and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such Fiscal Year and the next following Fiscal Year and shall furnish to the Association a copy of such review upon its completion.

(c) If any such review shows that EEPCO would not meet the requirements set forth in paragraph (a) for EEPCO's Fiscal Years covered by such review, EEPCO shall promptly take all necessary action necessary on its part in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between: (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and (B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) 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.

(iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each Fiscal Year.

(iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(v) 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.

(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 "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.

(viii) 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 Association.

Section 4.03. (a) Except as the Association shall otherwise agree, EEPKO shall not incur any debt, unless the net revenues of EEPKO for the Fiscal Year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.3 times the estimated maximum debt service requirements of EEPKO for any succeeding Fiscal Year on all debt of EEPKO, including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of EEPKO 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 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 adjusted to take account of EEPKO's prices in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate 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 rates 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.

(vi) 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 Association.

Section 4.04. (a) Except as the Association shall otherwise agree, EEPKO shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than one (1).

(b) For purposes of this Section:

(i) The term "debt" means any indebtedness of EEPKO 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 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 "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of EEPCO not allocated to cover specific liabilities.

(iv) 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 Association.

Section 4.05. (a) Except as the Association shall otherwise agree, EEPCO shall maintain a ratio of current assets to current liabilities of not less than one (1).

(b) Before March 31 in each of its Fiscal Years, EEPCO shall, on the basis of forecasts prepared by EEPCO and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such Fiscal Year and the next following Fiscal Year and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that EEPCO would not meet the requirements set forth in paragraph (a) for EEPCO's Fiscal Years covered by such review, EEPCO shall promptly take all action necessary or appropriate on its part in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(ii) 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.

(iii) 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.

(iv) 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 Association.

Section 4.06. Unless the Association shall otherwise agree, EEPCO shall not undertake any investment for the expansion of its generation, transmission and distribution capacities, if after such investment the aggregate amount of its investment during the period 1997-2006 shall exceed, by more than five percent, the aggregate amount of investment specified in its investment program for the period 1997-2006 (Birr 9 billion).

Section 4.07. EEPCO shall: (a) not later than June 30, 1998, adopt an action plan, in form and substance acceptable to the Association, designed to reduce its consumer payment arrears, and thereafter implement said action plan with due diligence and efficiency; and (b) by March 31, 1999, reduce its accounts receivable to less than 60 days of sales and, thereafter, ensure that its accounts receivable remain below said level until the completion of the Project.

Section 4.08. Article IV of the Project Agreement dated October 15, 1986, as

amended, between the Association and EEPCO is hereby deleted in its entirety and replaced by the provisions of Article IV of this Agreement, excluding this Section 4.08.

ARTICLE V

Effective Date; Termination Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of EEPCO thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate; or

(ii) a date twenty five years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify EEPCO of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this 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 or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For EEPCO:

P.O. Box 1233
Addis Ababa
Ethiopia

Telex:

21023

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of EEPCO or by EEPCO on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its General Manager, or by such other person or persons as EEPCO shall

designate in writing, and EEPCO shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

ETHIOPIAN ELECTRIC POWER CORPORATION

By /s/ Tesfaalem G/Yesus

Authorized Representative

SCHEDULE

Implementation Program

1. Except as the Association shall otherwise agree, EEPCO shall: (i) carry out EEPCO's Parts of the Project in accordance with EEPCO's Project Implementation Plan; and (ii) not permit, EEPCO's Project Implementation Plan, or any provision thereof, to be amended or waived in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of EEPCO's Parts of the Project.

2. EEPCO shall establish, and thereafter maintain until the completion of the Project implementation period, a Project Management Unit (PMU), with terms of reference acceptable to the Association. PMU shall: (i) be responsible for the coordination of the implementation of EEPCO's Parts of the Project, (ii) be headed by a Project Coordinator whose qualifications and experience shall be at all times satisfactory to the Association, and (iii) consist of suitably qualified staff in adequate numbers.

3. EEPCO shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of EEPCO's Parts of the Project and the achievement of the objective thereof;

(b) participate in the annual review referred to in paragraph 4 of Schedule 4 to the Development Credit Agreement, and in the midterm review referred to in paragraph 5 of said Schedule;

(c) not later than thirty days prior to the reviews referred to in paragraph (b) above, furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in implementing EEPCO's Parts of the Project, and a draft action plan containing proposals for remedying any identified deficiencies; and

(d) promptly after said reviews: (i) prepare an action plan satisfactory to the Association based on the recommendations stemming from the aforementioned review, and (ii) adopt and implement said action plan until the completion of the Project.

4. Unless the Association shall otherwise agree, EEPCO shall take all necessary

action so that:

(a) by June 30, 2000, it has developed and installed a decentralized accounting system for its operations, satisfactory to the Association, and provided the necessary training to its staff;

(b) by June 30, 1999, it has adopted a plan, satisfactory to the Association, for the decentralization of its billing and collection systems; and thereafter completed the implementation of said plan by June 30, 2000;

(c) (i) by August 31, 1999, it has completed the power system expansion study referred to in Part C.3 of the Project, including an action plan for the expansion of EEPCO's power generation and transmission capacities, and (ii) by November 30, 1999, it has adopted a plan based on the findings of said study, acceptable to the Association, for the expansion of its power generation and transmission capacities;

(d) (i) by November 30, 1999, it has completed an evaluation of its fixed assets; and (ii) by June 30, 2000, it has revalued its fixed assets based on said evaluation; and

(e) by April 30, 2001, it has carried out a tariff study based, inter alia, on the findings of the power system expansion study to be carried out under Part C.3 of the Project.

