

CONFORMED COPY

LOAN NUMBER 2827 IN

(Karnataka Power Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

KARNATAKA POWER CORPORATION LIMITED

Dated December 21, 1987

PROJECT AGREEMENT

AGREEMENT, dated December 21, 1987, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and KARNATAKA POWER CORPORATION LIMITED (the Corporation), a company established under the Companies Act, 1956, of the Borrower.

WHEREAS (A) by the Loan Agreement of even date herewith between India, acting by its President (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to three hundred thirty million dollars (\$330,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Corporation agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) for the purposes of carrying out Parts A and B of the Project, the Borrower will make available to the State of Karnataka (Karnataka) an amount equivalent to \$329,000,000 out of the proceeds of the Loan as provided for the Loan Agreement;

(C) by a subsidiary loan agreement to be entered into between Karnataka and the Corporation, part of the proceeds of the loan provided for under the Loan Agreement will be made available by Karnataka to the Corporation on the terms and conditions set

forth in said Subsidiary Loan Agreement; and

WHEREAS the Corporation, in consideration of the Bank's entering into the Loan Agreement with the Borrower and the Karnataka Agreement with Karnataka, 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 Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of the Project

Section 2.01. (a) The Corporation declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Corporation shall otherwise agree, the Corporation shall carry out Part A of the Project in accordance with the Implementation Procedures set forth in the Schedule to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Karnataka Agreement.

Section 2.03. The Corporation shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Part A of the Project.

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

Section 2.05. (a) The Corporation shall, at the request of the Bank, exchange views with the Bank with regard to 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 Loan.

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

#### ARTICLE III

##### Management and Operations of the Corporation

Section 3.01. The Corporation shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. The Corporation shall at all times operate and maintain its plant, 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 and public utility practices.

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

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Corporation shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Corporation shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each financial year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than seven months after the end of each such year, (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 Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) The Corporation shall take from time to time all such measures as may be necessary including, if necessary, adjustment of tariffs of the Corporation to ensure that the total revenues in any financial year shall, after meeting: (i) all expenses properly chargeable to revenues, including operating maintenance and management expenses; (ii) taxes on income and profits; (iii) depreciation; and (iv) interest payable on all debentures, bonds and loans; produce such surplus as is not less than 3% of the net fixed assets of the Corporation in service at the beginning of such year.

(b) For the purposes of this Section:

- (i) "total revenues" means revenues of the Corporation from the sale of electricity and other services, miscellaneous income, and such other subventions as shall be made in respect of extraordinary costs which are borne by the Corporation and which should not reasonably be borne by customers of the Corporation;
- (ii) "expenses" means the cost of power purchased, fuel, operating, maintenance, management and administrative expenses, and all taxes and duties accruing

during the financial year, other than taxes on income and profits of the Corporation;

- (iii) "taxes on income and profits" consists of income taxes and other levies accrued by the Corporation according to the provisions of any legislation or regulation applicable in this respect;
- (iv) "depreciation" means a provision derived in accordance with the straight-line method based on the useful life of assets as stipulated in the Borrower's notification G.S.R. 244(E)-F No. 25(9)82-D(SEB) dated March 31, 1985, issued under the provisions of Section 68 of the Electricity (Supply) Act 1948, of the Borrower, based on the gross value of the Corporation's fixed assets in service at the beginning of each year;
- (v) "interest payable on all debentures, bonds and loans" means all interest, excluding interest during construction, accrued by the Corporation during the financial year and all other charges on debt; and
- (vi) "net fixed assets of the Corporation in service" means the original cost of such fixed assets, as reduced by the aggregate of the cumulative depreciation in respect of such assets.

#### 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 Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the Corporation thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Corporation thereof.

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 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 the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or

64145 (WUI)

For the Corporation:

Karnataka Power Corporation Limited  
Bangalore  
Karnataka, India

Cable address:

KPC  
Bangalore

Telex:

0845-687

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Corporation may be taken or executed by its Chairman or such other person or persons as the Corporation shall designate in writing, and the Corporation shall furnish to the Bank 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 BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ B. Alisbah  
Acting Regional Vice President  
Asia

KARNATAKA POWER CORPORATION LIMITED

By /s/ N. Misra  
Authorized Representative

#### SCHEDULE

##### Implementation Procedures

1. The Corporation shall furnish to the Bank by December 31 each year a report of the Corporation's forecast of operational and financial performance for the ensuing financial year specifying the actions that will be taken to ensure fulfillment of the requirements of Section 4.02 of this Agreement.

2. The Corporation shall: (a) review with its Panel of Experts the results of the investigations of the limestone formation at Kodasalli; (b) prepare a report, recommending treatment should any be necessary, for said formation; and (c) furnish said report to the Bank by November 30, 1987.

3. The Corporation shall by December 31, 1987, ensure that its internal Audit Unit is adequately staffed and that said Unit report directly to the Corporation's Finance Director or the

Managing Director.

