

CONFORMED COPY

LOAN NUMBER 4545 IN

Uttar Pradesh Project Agreement

(Uttar Pradesh Power Sector Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

STATE OF UTTAR PRADESH

Dated May 19, 2000

LOAN NUMBER 4545 IN

UTTAR PRADESH PROJECT AGREEMENT

AGREEMENT, dated May 19, 2000, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF UTTAR PRADESH, acting by its Governor (Uttar Pradesh).

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 lend to the Borrower an amount of one hundred fifty million dollars (\$150,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Uttar Pradesh agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) the proceeds of the loan provided for under the Loan Agreement will be made available by the Borrower to Uttar Pradesh as provided for in the Loan Agreement;

(C) by the Project Agreement of even date herewith among the Bank and Uttar Pradesh Power Corporation Limited (UPPCL) and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL), UPPCL, UPRVUNL and UPJVNL have undertaken certain obligations towards the Bank as set forth in the Project Agreement; and

(D) the Bank has received a letter dated January 31, 2000 from Uttar Pradesh enclosing a policy statement designed to restructure, reform and develop the power sector in Uttar Pradesh (hereinafter the Reform Program or Program) and declaring Uttar Pradesh's commitment to the execution of such Program.

WHEREAS Uttar Pradesh, in consideration of the Bank's entering into the Loan 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 Loan Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Uttar Pradesh declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall, subject to paragraph (b) hereof, carry out Part D.1 of the Project through its relevant departments or agencies and, shall cause UPPCL, and Distribution Companies as the case may be, to carry out the relevant activities under Parts A, B, C, D.2 and E of the Project, and shall cause UPRVUNL and UPJVNL to carry out the relevant activities under Parts D.2 and E of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and technical 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 any limitation or restriction upon any of its other obligations under this Agreement, Uttar Pradesh shall cause UPPCL, UPRVUNL and UPJVNL to perform in accordance with the provisions of the Project Agreement all the respective obligations therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable UPPCL, UPRVUNL and UPJVNL to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 2.02. (a) Uttar Pradesh shall relend the proceeds of the Loan to each of UPPCL, UPRVUNL and UPJVNL under a Subsidiary Loan Agreement to be entered into between Uttar Pradesh and each of UPPCL, UPRVUNL and UPJVNL under terms and conditions satisfactory to the Bank, which shall include, that UPPCL, UPRJUN and UPJVNL shall pay interest on the principal amount so relent and withdrawn and outstanding from time to time at a rate of not less than 12.5% per annum, and repay the principal amount so relent over a period of 20 years including therein a period of grace of 5 years.

(b) Except as the Bank may otherwise agree, Uttar Pradesh shall, in accordance with arrangements and procedures satisfactory to the Bank, make available to UPPCL, UPRVUNL and UPJVNL without setting off any amounts that may be due to Uttar Pradesh from UPPCL, the proceeds of the Loan immediately as they are withdrawn from the Loan Account and made available to Uttar Pradesh by the Borrower in respect of expenditures to be financed under each Subsidiary Loan Agreement.

(c) Uttar Pradesh shall participate with UPPCL, UPRVUNL, UPJVNL and Distribution Companies in preparing and negotiating the plan referred to in Section 2.05 of the Project Agreement.

(d) Uttar Pradesh shall revise the Financial Restructuring Plan based on the plan referred to in Section 2.05 of the Project Agreement and submit by December 31, 2001 a revised Financial Restructuring Plan satisfactory to the Bank.

(e) Uttar Pradesh shall provide financial support to UPPCL, UPRVUNL, UPJVNL

and Distribution Companies in accordance with arrangements satisfactory to the Bank in order to enable UPPCL, UPRVUNL, UPJVNL and Distribution Companies to achieve the financial and operational targets under the Financial Restructuring Plan and the revised Financial Restructuring Plan.

(f) Uttar Pradesh shall take all such steps that may be required for the continued and satisfactory functioning of the Regulatory Commission under the Reform Act.

(g) Uttar Pradesh shall cause UPPCL to make timely and suitable tariff submissions to the Regulatory Commission for achieving the financial targets set out in Section 4.04 of the Project Agreement.

(h) During the implementation of the Project, Uttar Pradesh shall, within 30 days of the approval of the budget of Uttar Pradesh, inform the Bank of the approved budget of the Regulatory Commission for the current Fiscal Year.

Section 2.03. 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 4 to the Loan Agreement.

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

Section 2.05. Uttar Pradesh shall, with the participation of UPPCL, UPRVUNL, UPJVNL and Distribution Companies by December 31, 2001 submit to the Bank a report detailing the outcome of the negotiations between UPPCL, UPRVUNL, UPJVNL and Distribution Companies, and their lenders and suppliers on rescheduling UPPCL's UPRVUNL's, UPJVNL's and Distribution Companies' overdue payables, current debt from lenders, debt service in default, and debt service falling due from FY 2001 to FY 2005.

Section 2.06. Uttar Pradesh shall take all such actions as may be required or necessary including the provision of consents under the Reform Act, in order to:

(a) enable UPPCL, UPRVUNL and UPJVNL to perform their respective obligation under the Project Agreement; and

(b) enable UPPCL to establish Distribution Companies and prepare and implement the transfer scheme referred to in Section 2.06 of the Project Agreement.

Section 2.07. On or about the date that the transfer scheme referred to in Section 2.06 of the Project Agreement is implemented, Uttar Pradesh shall:

(a) agree with UPPCL on necessary revisions to the Subsidiary Loan Agreement between Uttar Pradesh and UPPCL in order to take account of such transfer; and

(b) take all such actions as may be required to ensure that on or about the date that the transfer scheme referred to in Section 2.06 of the Project Agreement is implemented, UPPCL enters into a Subloan and Implementation Contract, satisfactory to the Bank, with each Distribution Company, as referred to in Section 2.06(b)(i) of the Project Agreement.

Section 2.08. Uttar Pradesh shall:

(a) at all times keep UPPCL, UPRVUNL and UPJVNL indemnified under arrangements satisfactory to the Bank against losses under Power Purchase Agreements entered into by Uttar Pradesh, UPSEB, UPPCL, UPRVUNL or UPJVNL to the extent that the Regulatory Commission does not permit recovery of tariffs under any such Power Purchase Agreement from the consumers; and

(b) make budgetary provision for all outstanding electricity dues of its departments, and ensure that these amounts are paid to UPPCL and Distribution

Companies on a regular and timely basis.

Section 2.09. Uttar Pradesh 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 Bank, the carrying out of the Project and the Program and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2002 or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient implementation of the Program and the completion of the Project, and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 2.10. (a) Uttar Pradesh shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project and the Program, 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) Uttar Pradesh shall promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of the Project and the Program, the accomplishment of the purposes of the Loan, or the performance by Uttar Pradesh of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Uttar Pradesh shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures in respect of the Project.

(b) Uttar Pradesh shall:

(i) have the said records and accounts referred to in paragraph (a) of this section for each fiscal 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 six months after the end of each such year, 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, and accounts as well as the audit thereof as the Bank shall from time to time reasonably request.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, Uttar Pradesh shall not later than March 31, 2001 or such later date as the Bank shall agree, prepare in accordance with guidelines acceptable to the Bank quarterly Project Management Reports for Part D.1 of the Project each of which for such Part of the Project:

(i) (A) sets forth actual sources and applications of funds both

cumulatively and for the period covered by said report, and
projected sources and applications of funds for the six-month
period following the period covered by said report;
and

(B) shows separately expenditures financed out of the proceeds
of the Loan during the period covered by said report and
expenditures proposed to be financed out of the proceeds of the
Loan during the six-month period following the period covered by
said report;

(ii) (A) describes progress in Project implementation, both
cumulatively and for the period covered by said report; and

(B) explains variances between the actual and previously
forecast implementation targets; and

(iii) sets forth the status of procurement and expenditures under
contracts financed out of the proceeds of the Loan, as at the end of the
period covered by said report.

(b) Uttar Pradesh shall furnish to the Bank not later than 45 days after the
end of each calendar quarter a Project Management Report prepared pursuant to
paragraph (a) of this Section for each such calendar quarter beginning not later than
the calendar quarter ending on March 31, 2001 or such later date as the Bank shall
agree.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon
which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Uttar
Pradesh thereunder shall terminate on the date on which the Loan Agreement shall
terminate in accordance with its terms, and the Bank shall promptly notify Uttar
Pradesh thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force
and effect notwithstanding any cancellation or suspension under the General
Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. 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 Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

For Uttar Pradesh:

Chief Secretary to the Government
of Uttar Pradesh
Lucknow, Uttar Pradesh

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed under this Agreement on behalf of Uttar Pradesh may be taken or executed by its Chief Secretary or by such other person or persons as Uttar Pradesh shall designate in writing, and Uttar Pradesh shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. 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 New Delhi, India, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edwin R. Lim

Country Director, India

STATE OF UTTAR PRADESH

By /s/ H. C. Gupta

Authorized Representative

