

CONFORMED COPY

CREDIT NUMBER 4297-UG

Project Agreement

(Power Sector Development Operation)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED

Dated May 28, 2007

PROJECT AGREEMENT

Agreement dated May 28, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED (“UETCL”) (“Project Agreement”) in connection with the Financing Agreement of same date between the REPUBLIC OF UGANDA (“Recipient”) and the Association (“Financing Agreement”). The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. UETCL declares its commitment to the objectives of the Project. To this end, the UETCL shall carry out Parts 1 and 2.5 of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for implementation of Parts 1 and 2.5 of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, UETCL shall carry out Parts 1 and 2.5 of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

- 3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is 20 years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. UETCL's Representative is its Managing Director.

4.02. The Association's Address is:

International Association for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Uganda Electricity Transmission Company Limited
Amber House
Plot 29/33 Kampala Road
PO Box 7625
Kampala, Uganda

Facsimile:

(256) 41 341789

AGREED at Kampala, the Republic of Uganda, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: */s/ Grace M. Yabrudy*
Authorized Representative

UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED

By: */s/ Eriasi Kiyemba*
Authorized Representative

SCHEDULE

Execution of Parts 1 and 2.5 of the Project

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. UETCL shall, at all times during the period of the Project implementation maintain:
 - (a) for the purpose of Parts 1 and 2.5 of the Project, a Project Manager with the responsibility for procurement and monitoring performance of power supplies under the Power Purchase Agreements. To this end, the Project Manager shall ensure participation of MEMD in all procurement activities under Parts 1 and 2.5 of the Project; and
 - (b) for the purpose of Part 2.5 of the Project, the planning unit with the responsibility for coordination of the regional power studies with related on-going work.

2. Environmental and Social Safeguards

UETCL shall in accordance with Section I.B.3 of Schedule 3 to the Financing Agreement, ensure that the Project is implemented in accordance with the Environmental Impact Assessment Report and Resettlement Action Plan, and in a manner and substance satisfactory to the Association.

B. Anti-Corruption

UETCL shall ensure that Parts 1 and 2.5 of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. (a) UETCL shall monitor and evaluate the progress of Parts 1 and 2.5 of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 (b) of the General Conditions and on the basis of indicators set forth below in subparagraph (b) of this paragraph. Each such Project Report shall cover the period of one calendar year, and shall be furnished to the Recipient not later than 45 days after the end of the period covered by such

report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

- (b) The performance indicators referred to above in sub-paragraph (a) consist of the indicators referred to in Section II. A.1 of Schedule 3 to the Financing Agreement.

B. Financial Management, Financial Reports; Audits

1. UETCL shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of UETCL, including the operations, resources and expenditures related to Parts 1 and 2.5 of the Project.
2. UETCL shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of UETCL. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

Section III. Procurement

All goods, works and services required for Parts 1 and 2.5 of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Schedule 3 to the Financing Agreement.

Section IV. Other Undertakings

A. Additional Financial and Reporting Covenants

1. Except as the Association shall otherwise agree, the net revenues of UETCL for any fiscal year shall be at least equal to the sum of its debt service requirements, working capital requirements, dividends (if any), and a proportion of investments that require funding from UETCL's internal resources. To this end, UETCL shall not incur any debt, unless the net revenues of UETCL for the fiscal year immediately preceding the date of such incurrence or a later twelve-month period ending prior to the date of such incurrence, whichever is greater, shall be at least 1.0 times the estimated maximum debt service requirements of UETCL for any succeeding fiscal year on all debt of UETCL, including the debt to be incurred.

For the purposes of this Section:

- (a) The term “debt” means any indebtedness of UETCL maturing by its terms more than one year after the date on which it is originally incurred.
- (b) 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.
- (c) The term “net revenues” means the difference between:
 - (i) the sum of revenues from all sources related to operations adjusted to take account of UETCL’s rates 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 related and net non-operating income; and
 - (ii) 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.
- (d) The term “net non-operating income” means the difference between:
 - (i) revenues from all sources other than those related to operations; and
 - (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (e) The term “debt service requirements” means the aggregate amount of repayment (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (f) Whenever, for the purposes of this paragraph, it shall be necessary to value, in terms of the currency of the Recipient, 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.

2. UETCL shall in respect of Parts 1 and 2.5 of the Project, not later than six months after the Effective Date, appoint the independent auditors referred to in Section 4.09 (b) of the General Conditions, in accordance with the provisions of Section III of this Schedule.

B. Additional Procurement Covenants

1. UETCL shall, not later than six months after the Effective Date, put in place arrangements, satisfactory to the Association, including the appointment of independent procurement auditors acceptable to the Association, in accordance with the provisions of Section III of this Schedule, for reviewing the procurement of goods, works and consultants' services financed under Parts 1 and 2.5 of the Project, including the reviewing of procurement procedures and processes.
2. UETCL shall, not later than six months after the end of each Fiscal Year, or such later date as the Association may agree, furnish to the Recipient and the Association an audit report on the procurement of goods, works and consultants' services carried out under Parts 1 and 2.5 of the Project, prepared by the independent procurement auditors referred to in Section IV.B.1 of this Schedule.