

CONFORMED COPY

LOAN NUMBER 4441 IN

Andhra Pradesh Project Agreement

(Andhra Pradesh Power Sector Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

STATE OF ANDHRA PRADESH

Dated March 5, 1999

LOAN NUMBER 4441 IN

ANDHRA PRADESH PROJECT AGREEMENT

AGREEMENT, dated March 5, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF ANDHRA PRADESH, acting by its Governor (Andhra 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 two hundred ten million dollars (\$210,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Andhra 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 Andhra Pradesh as provided for in the Loan Agreement;

(C) by the Project Agreement of even date herewith between the Bank and Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) and Andhra Pradesh Power Generating Corporation Limited (APGENCO), APTRANSCO and APGENCO have undertaken certain obligations towards the Bank as set forth in the Project Agreement; and

(D) the Bank has received a letter dated November 12, 1998 from Andhra Pradesh enclosing a detailed policy statement approved by Andhra Pradesh designed to restructure, reform and develop the power sector in Andhra Pradesh (hereinafter the Reform Program or Program) and declaring Andhra Pradesh's commitment to the execution of such Program.

WHEREAS Andhra 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) Andhra 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) (i) hereof, carry out Part D.1 of the Project through its relevant departments, shall cause APTRANSCO to carry out Parts A, B, C and the relevant activities under Part D.2 of the Project and shall cause APGENCO to carry out the relevant activities under Part D.2 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, Andhra Pradesh shall cause APTRANSCO and APGENCO 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 APTRANSCO and APGENCO 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) Andhra Pradesh shall relend the proceeds of the Loan to APTRANSCO and APGENCO under Subsidiary Loan Agreements to be entered into between Andhra Pradesh, and each of APTRANSCO and APGENCO under terms and conditions satisfactory to the Bank, which shall include, that APTRANSCO and APGENCO shall pay interest on the principal amount so relent and withdrawn and outstanding from time to time at a rate of not less than 13.5% per annum, and repay the principal amount so relent over a period of 15 years including therein a period of grace of 3 years and, that the foreign exchange risk shall be borne by the Borrower.

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

(c) Andhra Pradesh shall participate with APTRANSCO and APGENCO in preparing and negotiating the plan referred to in Section 2.05 of the Project Agreement.

(d) Andhra Pradesh shall provide financial support to APTRANSCO, APGENCO and Distribution Companies in accordance with the provisions of the Financial Commitment Letter to enable APTRANSCO, APGENCO and Distribution Companies to achieve the financial and operational targets under the Financial Restructuring Plan.

(e) Andhra Pradesh shall, in accordance with a time schedule satisfactory to the Bank, establish and make operational a Regulatory Commission under the provisions of the Reform Act and take all such steps that may be required for its continued functioning under the Reform Act.

(f) Andhra Pradesh shall prior to the operationalization of the Regulatory Commission referred to in Section 2.02 (e) hereof, adjust electricity tariff to the extent required to enable APTRANSCO and APGENCO to achieve the financial targets set out in Section 4.04 of the Project Agreement. After the operationalization of the

Regulatory Commission, Andhra Pradesh shall cause APTRANSCO and Distribution Companies to make timely and suitable tariff submissions to the Regulatory Commission for achieving such financial targets.

(g) Andhra Pradesh shall, by March 31 of each year during the implementation of the Project, inform the Bank of the approved budget of the Regulatory Commission referred to in paragraph (e) of this Section for the following 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. Andhra Pradesh shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Andhra Pradesh 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. Andhra Pradesh shall, with the participation of APTRANSCO and APGENCO, by September 30, 1999 submit to the Bank a detailed plan, agreed between APTRANSCO's and APGENCO's lenders and suppliers, for the purpose of rescheduling APTRANSCO's and APGENCO's overdue payables, current debt from lenders, debt service in default, and debt service falling due from FY 1999 to FY 2002.

Section 2.06. Andhra Pradesh shall take all such actions as may be required or necessary including the provision of consents under the Reform Act, in order to enable APTRANSCO 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, Andhra Pradesh shall agree with APTRANSCO on necessary revisions to the Subsidiary Loan Agreement between Andhra Pradesh and APTRANSCO in order to take account of such transfer.

Section 2.08. Andhra 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 August 31, 2000, 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 October 31, 2000, 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 2.09. (a) Andhra 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) Andhra 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 Andhra Pradesh of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Financial Covenants

Section 3.01. (a) Andhra 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) Andhra 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, Andhra Pradesh shall not later than December 31, 1999 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) Andhra 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 December 31, 1999 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 Andhra 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 Andhra 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Andhra Pradesh:

Chief Secretary to the Government of Andhra Pradesh
Hyderabad, India

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 Andhra Pradesh may be taken or executed by its Chief Secretary or by such other person or persons as Andhra Pradesh shall designate in writing, and Andhra 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 ANDHRA PRADESH

By /s/ V. S. Sampath

Authorized Representative

