

CONFORMED COPY

LOAN NUMBER 4545 IN

Loan Agreement

(Uttar Pradesh Power Sector Restructuring Project)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 19, 2000

LOAN NUMBER 4545 IN

LOAN AGREEMENT

AGREEMENT, dated May 19, 2000, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated January 31, 2000, from the State of Uttar Pradesh (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;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Reform Program, has requested the Bank to assist in the financing of the Project;

(C) the Project will be carried out by the Uttar Pradesh Power Corporation Limited (UPPCL), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL), and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) with the Borrower's and Uttar Pradesh's assistance; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement, in the Uttar Pradesh Project Agreement of even date herewith between the Bank and Uttar Pradesh, and the Project Agreement of even date herewith between the

Bank, UPPCL, UPRVUNL and UPJVNL.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, is modified to read:

"'Euro' and 'EUR' each means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union."

(b) A new paragraph (d) is added to Section 3.04 to read:

"If the Bank shall at any time receive less than the full amount then due and payable to it under the Loan agreement, the Bank shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Loan Agreement as the Bank shall in its sole discretion determine."

(c) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Distribution Companies" means companies incorporated under the Indian Companies Act, 1956, as amended, and as may be established by UPPCL as set out in Section 2.06 of the Project Agreement; each such company is individually referred to as a "Distribution Company";

(b) "Electricity Act" means the Electricity (Supply) Act, 1948 of the Borrower, as amended from time to time;

(c) "Eligible Categories" means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 (a) of this Agreement;

(e) "Environmental Framework and Safeguards for Transmission Projects" means the document of that name dated February 21, 2000 prepared by UPSEB and adopted for implementation by UPPCL, and satisfactory to the Bank, for dealing with adverse environmental aspects resulting from implementing transmission projects;

(f) "Environment Management Plan" means each EMP, satisfactory to the Bank, prepared by UPPCL in accordance with the Environmental Framework and Safeguards for Transmission Projects for dealing with the adverse environmental impacts resulting from implementing the Project;

(g) "Financial Restructuring Plan" means the Plan dated March 11, 2000, prepared by Uttar Pradesh for the purpose of ensuring, inter alia, that UPPCL, UPRVUNL and UPJVNL and Distribution Companies achieve the financial and operational targets set out in such Plan;

(h) "Fiscal Year" and "FY" mean the Fiscal Year of the Borrower, Uttar Pradesh, UPPCL, UPRVUNL, UPJVNL and Distribution Companies beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(i) "Indian Rupee" and "Rs" mean the currency of the Borrower;

(j) "Investment Plan" means the investment measures included in the Project Implementation Plan;

(k) "Project Implementation Plan" means the Plan dated March 10, 2000, prepared by Uttar Pradesh, UPSEB and UPPCL for the purpose of implementing the Project;

(l) "Project Agreement" means the agreement among the Bank, UPPCL, UPRVUNL and UPJVNL of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(m) "Project Management Report" means each report prepared in accordance with Section 3.02 of the Uttar Pradesh Project Agreement and Section 4.02 of the Project Agreement;

(n) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated December 21, 1993 and January 31, 1996 between the Borrower and the Bank;

(o) "Reform Act" means the Uttar Pradesh Electricity Reforms Act, 1999 providing, inter alia, for restructuring of the electricity industry, rationalization of the generation, transmission, distribution and supply of electricity, private sector participation in the electricity industry, and the adoption of measures for the development and management of the electricity industry, as the provisions of this Reform Act may be amended from time to time;

(p) "Regulatory Commission" means the Uttar Pradesh Electricity Regulatory Commission established by Uttar Pradesh under the Reform Act as referred to in Section 2.02 (f) of the Uttar Pradesh Project Agreement;

(q) "Resettlement Action Plan" or "RAP" means the plan dated February 21, 2000, prepared by UPSEB and adopted for implementation by UPPCL, and any further RAP prepared by UPPCL, satisfactory to the Bank, for dealing with the resettlement and rehabilitation of people displaced or affected as a result of implementation of the Project;

(r) "Revised Financial Restructuring Plan" means the plan to be submitted by Uttar Pradesh to the Bank pursuant to Section 2.02(d) of the Uttar Pradesh Project Agreement;

(s) "Social Policies and Procedures" means the Social Policies and Procedures dated February 21, 2000, prepared by UPSEB and adopted by UPPCL, and satisfactory to the Bank, for dealing with the social and land acquisition aspects of the Project;

(t) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(u) "Subloan and Implementation Contract" means the contract agreement to be entered into between UPPCL and Distribution Companies pursuant to Section 2.06 of the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subloan Agreement Subloan and Implementation Contract;

(v) "Subsidiary Loan Agreement" means each of the agreement to be entered into by Uttar Pradesh with UPPCL, UPRVUNL and UPJVNL pursuant to Section 2.02 of the Uttar Pradesh Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(w) "Transfer Scheme" means the Uttar Pradesh Electricity Reforms Transfer Scheme dated January 14, 2000 promulgated by Uttar Pradesh pursuant to the provisions of the Reform Act for purposes, inter alia, of transferring the assets, properties,

liabilities, proceedings and personnel related to the transmission and distribution undertaking of UPSEB to UPPCL, the thermal generation undertaking to UPRVUNL and the hydro generation undertaking to UPJVNL;

(x) "UPJVNL" means the Uttar Pradesh Jal Vidyut Nigam Limited, a company incorporated under the Indian Companies Act, 1956, as amended, for the purposes of engaging in the business of, inter alia, carrying out hydro generation activities;

(y) "UPPCL" means the Uttar Pradesh Power Corporation Limited, a company incorporated under the Indian Companies Act, 1956, as amended, for the purpose of engaging in the business of, inter alia, procurement, transmission, and supply of electric energy in accordance with the Reform Act;

(z) "UPRVUNL" means the Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, a company incorporated under the Indian Companies Act, 1956, as amended, for the purpose of engaging in the business of, inter alia, carrying out thermal generation activities;

(aa) "UPSEB" means the Uttar Pradesh State Electricity Board established under the provisions of the Electricity (Supply) Act, 1948, of India as amended to the date of this Agreement;

(bb) "Uttar Pradesh" means the State of Uttar Pradesh, a State of India, and includes any successor thereto;

(cc) "Uttar Pradesh Project Agreement" means the agreement between the Bank and State of Uttar Pradesh of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Uttar Pradesh Project Agreement; and

(dd) "Volunteers Voluntary Retirement Scheme" means each of the scheme of UPPCL, UPRVUNL and UPJVNL formulated pursuant to the provisions of Section 2.09 of the Project Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be a reference to, as appropriate, to each of UPPCL, UPRVUNL, UPJVNL and each Distribution Company.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred fifty million dollars (\$150,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to

itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Uttar Pradesh to carry out or to ensure that UPPCL, UPRVUNL and UPJVNL and Distribution Companies, as the case may be, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial,

engineering, and technical practices, and 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 and Distribution Companies to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Uttar Pradesh in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

(c) The Borrower shall release to Uttar Pradesh funds equivalent to the amounts withdrawn by the Borrower from the Loan Account, including those deposited in the Special Account, promptly after such withdrawal.

Section 3.02. 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 4 to this Agreement.

Section 3.03. The Borrower and the Bank hereby agree that 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) shall be carried out by UPPCL, UPRVUNL and UPJVNL pursuant to Section 2.03 (a) of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; and

(iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this section and those for the Special Account 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, including a separate opinion by said auditors as to whether the Project Management Reports or the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Uttar Pradesh shall have failed to perform any of its obligations under the Uttar Pradesh Project Agreement.

(b) UPPCL, UPRVUNL or UPJVNL shall have failed to perform any of their respective obligations under the Project Agreement.

(c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Uttar Pradesh, UPPCL, UPRVUNL or UPJVNL will be able to perform their respective obligations under the Uttar Pradesh Project Agreement or the Project Agreement.

(d) An event shall have occurred which shall make it improbable that the Reform Program or a significant part thereof will be carried out.

(e) Uttar Pradesh or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Regulatory Commission, UPPCL, UPRVUNL, UPJVNL or any Distribution Company or for the suspension of operations of any of them.

(f) The Reform Act, the Transfer Scheme Rules or the Memorandum or Articles of Association of UPPCL, UPRVUNL, UPJVNL or any Distribution Company, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of UPPCL, UPRVUNL, UPJVNL, any Distribution Company or the Regulatory Commission, as the case may be, or the ability of Uttar Pradesh, UPPCL, UPRVUNL or UPJVNL, as the case may be, to carry out the Project or to perform their respective obligations under the Project Agreement or the Uttar Pradesh Project Agreement, or the ability of any Distribution Company to perform its obligations under the relevant Sub-loan agreement and implementation contract referred to in Section 2.06 of the Project Agreement.

(g) UPPCL or any Distribution Company shall have failed to obtain a license under the Reform Act from the Regulatory Commission or any such license is terminated, or any such license is altered, varied, modified or amended in a manner that materially and adversely affects the ability of UPPCL or any Distribution Company to carry out the Project or to perform their respective obligations under the Project Agreement or any Sub-loan agreement and implementation contract referred to in Section 2.06 of the Project Agreement.

(h) Except as set out in Section 2.06 of the Uttar Pradesh Project Agreement, and Section 2.06 of the Project Agreement, UPPCL shall have taken any action which has the effect of altering, varying, modifying, adding or otherwise changing the terms upon which any property, interest on property, rights, liabilities and personnel have been transferred to UPPCL under the Transfer Scheme Rules prepared pursuant to the Reform Act so as to affect materially and adversely the operations or the financial condition of UPPCL, or its ability to carry out the Project or to perform its obligations under the Project Agreement.

(i) Any Distribution Company shall have failed to perform any of its obligations under the relevant Subloan and Implementation Contract referred to in Section 2.06 of the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the events specified in paragraphs (a), (b), (e) and (f) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the

effectiveness of the Loan Agreement with the meaning of Section 12.01 (c) of the General Conditions, namely that Subsidiary Loan Agreements, satisfactory to the Bank, has been executed on behalf of Uttar Pradesh and UPPCL, UPRVUNL and UPJVNL.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Uttar Pradesh Project Agreement has been duly authorized or ratified by Uttar Pradesh and is legally binding upon Uttar Pradesh in accordance with its terms;

(b) that the Project Agreement has been duly authorized or ratified by UPPCL, UPRVUNL and UPJVNL and is legally binding upon UPPCL, UPRVUNL and UPJVNL in accordance with its terms; and

(c) that each Subsidiary Loan Agreement has been duly authorized or ratified by Uttar Pradesh, UPPCL, UPRVUNL and UPJVNL and is legally binding upon Uttar Pradesh, UPPCL, UPRVUNL and UPJVNL in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purpose of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretary to the Government of India
Department of Economic Affairs Ministry of Finance
New Delhi, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-31-66175 FINE IN
953-31-61430 FINE IN

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)

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.

INDIA

By /s/ R. S. Sharma

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edwin R. Lim

Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works (including installation)	16,500,000	80%
(2) Consultants' ser- vices	5,000,000	100%
(3) Goods	119,000,000	100% of foreign expen- ditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(4) Payments under the Voluntary Retirement Scheme	5,000,000	100%
(5) Refunding of Project Preparation Advance	3,000,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(6) Fee	1,500,000	Amount due under Section 2.04 of this Agreement
TOTAL	150,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be

made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals in an aggregate amount not to exceed the equivalent of \$5,000,000 may be made on account of payments made for expenditures before that date but after March 1, 2000; or

(b) under Category 4 of the table set out in paragraph 1 of Section A of this Schedule unless the Voluntary Retirement Scheme shall have been approved by the Bank.; or

(c) incurred by any the Distribution Company ies or of the project for the relevant activities under Parts B, C and D.2 of the project, after the implementation of the transfer scheme referred to in Section 2.06 of the Project Agreement, until UPPCL has entered into a Subloan and Implementation Contract, satisfactory to the Bank with such each Distribution Company, as referred to in Section 2.06(b)(ii) of the Project Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) goods and works under contracts not exceeding \$200,000 equivalent and \$300,000 equivalent respectively, under such terms and conditions as the Bank shall specify by notice to the Borrower;

(b) services under contract not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants under such terms and conditions as the Bank shall specify by notice to the Borrower; and

(c) payments under the Voluntary Retirement Scheme.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received:

(i) the first Project Management Report referred to in Section 3.02 (b) of the Uttar Pradesh Project Agreement and Section 4.02 (b) of the Project Agreement; and

(ii) a request from the Borrower for withdrawal on the basis of Project Management Reports,

withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 3.02 (b) of the Uttar Pradesh Project Agreement and Section 4.02 (b) of the Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 3.02 of the Uttar Pradesh Project Agreement or Section 4.02 (b) of the Project Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account when withdrawals are not made on the Basis of Project Management Reports

1. For the purposes of this Annex the term "Authorized Allocation" means an amount equivalent to \$14,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$7,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$20,000,000. ; and

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account when withdrawals are made on the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of:

(a) the amount so requested; and

(b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$28,000,000. ~SCHEDULE 2 Description of the Project

The objectives of the Project are to: (a) assist Uttar Pradesh in implementing its Reform Program; (b) reduce the most critical bottlenecks of the power system; and (c) continue to build support among key stakeholders for power sector reform.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Transmission System Augmentation

The rehabilitation and expansion of the transmission system to remove the most critical constraints including:

(a) relieving the overloaded lines and substations;

(b) eliminating the low voltage pockets in the transmission system;

- (c) expanding the system to meet the growing load demand; and
- (d) improving the quality and reliability of the power supply.

Part B: Strengthening Subtransmission and Distribution System

The rehabilitation and expansion of the subtransmission and distribution system to:

- (a) reduce overloading in the power and distribution transformers and feeders;
- (b) improve the voltage profile, system reliability and efficiency;
- (c) reinforce the system to meet the growing demand; and
- (d) improve customer service.

Part C: Metering System Improvement

Improving the metering system through:

- (a) providing high accuracy and better quality electronic meters to high revenue yielding consumers; and
- (b) accurate measurement of energy exchanged between UPPCL, UPRVUNL, UPJVNL and Distribution Companies.

Part D: Technical Assistance

1. Provision of technical assistance to Uttar Pradesh in implementing the Power Sector Reform Program and to assist in the institutional development of the Regulatory Commission.
2. Provision of technical assistance and training to UPPCL, UPRVUNL, UPJVNL and Distribution Companies for implementing the Power Sector Reform Program, institutional development, including improving environment management capabilities, and for implementing the Project.

Part E: Voluntary Retirement Scheme:

Provision of financial support (ex-gratia severance payment) to the staff of UPPCL, UPRVN and UPJVNL accepting the THE vVoluntary rRetirement sScheme implemented as a measure of improvement in operational efficiency and productivity.

* * * * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
January 15, 2006	3,020,000
July 15, 2006	3,120,000
January 15, 2007	3,225,000
July 15, 2007	3,330,000
January 15, 2008	3,435,000
July 15, 2008	3,550,000
January 15, 2009	3,665,000
July 15, 2009	3,785,000
January 15, 2010	3,905,000
July 15, 2010	4,035,000
January 15, 2011	4,165,000

July 15, 2011	4,300,000
January 15, 2012	4,440,000
July 15, 2012	4,585,000
January 15, 2013	4,735,000
July 15, 2013	4,890,000
January 15, 2014	5,050,000
July 15, 2014	5,215,000
January 15, 2015	5,385,000
July 15, 2015	5,560,000
January 15, 2016	5,740,000
July 15, 2016	5,930,000
January 15, 2017	6,120,000
July 15, 2017	6,320,000
January 15, 2018	6,525,000
July 15, 2018	6,740,000
January 15, 2019	6,960,000
July 15, 2019	7,185,000
January 15, 2020	7,420,000
July 15, 2020	7,665,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I: Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for Domestically Manufactured Goods and Domestic Contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed the equivalent of \$5,000,000, and works, including installation estimated to cost less than \$5,000,000 equivalent per contract, upto an aggregate amount not to exceed the equivalent of \$16,500,000 may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Bank.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an

aggregate amount not to exceed the equivalent of \$5,000,000, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods including proprietary computer software, audio/video equipment, and reference standards/books, estimated to cost less than the equivalent of \$50,000 per contract, and with Bank's prior agreement, and in exceptional cases, as an extension of the existing contract for Goods/Works of similar nature for value not exceeding the equivalent of US\$100,000 in each case, both up to an aggregate amount not to exceed the equivalent of US\$4,000,000 may be procured in accordance with paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for civil works estimated to cost the equivalent of \$300,000 or more and each contract for goods awarded under Part B of Section I of this Schedule and the first two contracts awarded under Part C.1 of Section I of this Schedule irrespective of value, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II: Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof, applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Part D of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality Based Selection

Services of consultants for complex or highly specialized assignments under Part D of the Project that meet the requirement of paragraph 3.2 of the Consultancy Guidelines may be procured under contracts in accordance with the provisions of paragraph 3.2 through 3.4 of the Consultancy Guidelines.

2. Single Source Selection

Services of consultants under Part D of the Project which are estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount not to exceed the equivalent of \$1,000,000 may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of consultants under Part D of the Project that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed the equivalent of \$1,000,000 may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

