

CONFORMED COPY

LOAN NUMBER 3761 IND

Loan Agreement
(Sumatera and Kalimantan Power Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 25, 1994

LOAN NUMBER 3761 IND

LOAN AGREEMENT

AGREEMENT, dated July 25, 1994, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to contract from Austria (Austria) a loan in an amount equivalent to about \$27,600,000 to assist in financing a portion of Part A of the Project on the terms and conditions set forth in an agreement (the Austrian Agreement) to be entered into between the Borrower and Austria;

(C) the Borrower intends to contract from Overseas Economic Cooperation Fund (Japan) (OECF) a loan in an amount equivalent to about \$51,200,000 to assist in financing a portion of Part B of the Project on the terms and conditions set forth in an agreement (the OECF Agreement) to be entered into

between the Borrower and OECF;

(D) the Borrower intends to contract from Australian International Development Assistance Bureau (AIDAB) a loan in an amount equivalent to about \$25,300,000 to assist in financing a portion of Part B of the Project on the terms and conditions set forth in an agreement (the AIDAB Agreement) to be entered into between the Borrower and AIDAB;

(E) Parts D.1(a), D.2, D.3, and D.4 of the Project will be carried out by the Borrower and Parts A, B, C, D.1(b), D.5, D.6, and D.7 of the Project will be carried out by Perusahaan Umum Listrik Negara (PLN) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PLN a portion of the proceeds of the Loan as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Bank and PLN;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:
 - "(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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) "DGEED" means the Directorate General of Electricity and Energy Development of the Borrower's Ministry of Mines and Energy or any successor or successors thereto.
- (b) "Governing Laws" means the Borrower's Law No. 19 of 1960, Law No. 9 of 1969, Law No. 15 of 1985, Government Regulation No. 3 of 1983, Government Regulation No. 28 of 1983, Government Regulation No. 10 of 1989, Government Regulation No. 17 of 1990, and includes any other laws and regulations governing the organization, reorganization, restructuring and operations of PLN, as any of them may be amended or supplemented from time to time.
- (c) "PLN" means Perusahaan Umum Listrik Negara, a corporate entity established and existing under the laws and regulations of the Borrower.
- (d) "Project Agreement" means the agreement between the Bank and PLN 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.
- (e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.
- (f) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PLN pursuant to Section 3.01 (b) of this Agreement,

as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and the term "Subsidiary Loan" means the loan provided for under the Subsidiary Loan Agreement.

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, various currencies that shall have an aggregate value equivalent to the amount of two hundred sixty million five hundred thousand dollars (\$260,500,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars, a special deposit account in a bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000 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 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 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months'

notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. 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:

- (i) shall carry out Parts D.1(a), D.2, D.3, and D.4 of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause PLN to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PLN 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 relend to PLN out of the proceeds of the Loan an amount equivalent to \$257,300,000 under a subsidiary loan agreement to be entered into between the Borrower and PLN, under terms and conditions satisfactory to the Bank, including the following principal terms and conditions: (i) PLN shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a variable rate per annum equal to the sum of the following: the interest rate calculated in accordance with Section 2.05 of this Agreement, plus one half of one percent (1/2 of 1%) per annum; (ii) PLN shall pay to the Borrower a commitment charge on the principal amount of the Subsidiary Loan not withdrawn from time to time at the rate specified in Section 2.04 of this Agreement; (iii) the principal amount of the Subsidiary Loan shall be repaid over 20 years including five years' grace; and (iv) the foreign exchange risk shall be borne by PLN.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or

waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. (a) In order to assist the Borrower in carrying out Parts D.1(a), D.2, D.3, and D.4 of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

(b) Notwithstanding the provisions of subsection (a) hereof, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (i) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (ii) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (1) the terms of reference for such contracts; (2) single-source selection of consulting firms; (3) assignments of a critical nature, as reasonably determined by the Bank; (4) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (5) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

Section 3.03. The Bank and the Borrower 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) in respect of Parts A, B, C, D.1(b), D.5, D.6, and D.7 of the Project shall be carried out by PLN pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall: (a) undertake and, by March 31, 1995, complete a study on private power development in accordance with terms of reference and in a manner satisfactory to the Bank; (b) upon completion of the said study, furnish the same for review and comments to, and discuss the results and recommendations thereof with, the Bank; and (c) based on the said study's results and recommendations and subsequent review, comments and discussions: (i) prepare draft rules and procedures to govern private sector participation including the solicitation and evaluation of all forms of proposals for private power supply, (ii) furnish the said draft rules and procedures for review and comments to the Bank, and (iii) by December 31, 1995, finalize, adopt and enforce the same taking into account the comments, if any, thereon by the Bank.

Section 3.05. The Borrower shall: (a) undertake and, by March 31, 1995, complete a study on regulatory reform in the power sector in accordance with terms of reference and in a manner satisfactory to the Bank; (b) upon completion of the said study, furnish the same for review and comments to, and discuss the results and recommendations thereof with, the Bank; and (c) based on the said study's results and recommendations and subsequent review, comments and discussions: (i) prepare draft regulations for the power sector, (ii) furnish the said draft regulations for review and comments to the Bank, and (iii) by June 30, 1996, finalize, adopt and enforce the same taking into account the comments, if any, thereon by the Bank.

Section 3.06. The Borrower shall, by June 30, 1995, establish a Directorate of Regulation within DGEED with adequate staff and funds and necessary functions and powers to administer and oversee compliance with regulations (including pricing and technical regulations) regarding the electricity sector.

Section 3.07. The Borrower shall jointly with PLN: (a) take the necessary measures required to reorganize PLN into a limited liability company (Persero); (b) by December 31, 1994, furnish to the Bank a progress

report concerning the reorganization of PLN together with a draft time bound corporate reorganization and restructuring action plan for PLN to operate according to best utility practices; (c) discuss the said progress report and draft action plan with the Bank; and (d) immediately thereafter, finalize the said action plan taking into account the comments, if any, thereon by the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts D.1(a), D.2, D.3, and D.4 of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including 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; 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.

Section 4.02. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

(a) by December 31 each year commencing in 1994: (i) review with the Bank: (1) its power sector development program, (2) the least cost planning analysis used to formulate the said program, (3) the roles of PLN and the private sector in the said program, and (4) the transparency and appropriateness of the business environment for private power participation; (ii) review with the Bank and PLN, PLN's development and investment programs with respect to: (1) their consistency with the Borrower's power sector development program, (2) the balance among generation, transmission and distribution investments, and (3) the balanced development of regions; and

(b) ensure that PLN has access to sufficient funds to finance its development and investment programs.

Section 4.03. The Borrower shall take all such actions as shall be necessary to ensure that transfer of profits from PLN to the Overall Development Fund (Dana Pembangunan Semesta) does not prevent PLN from implementing its power sector investment program.

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) PLN shall have failed to perform any of its obligations under the Project Agreement.

(b) 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 PLN will be able to perform its obligations under the Project Agreement.

(c) Any of the Governing Laws shall have been amended, suspended, abrogated, or repealed so as to affect materially and adversely the ability of PLN to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PLN or for the suspension of its operations.

(e) PLN shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by PLN or by others whereby any of the property of PLN shall or may be distributed among its creditors.

(f) The Austrian Agreement, the OECF Agreement, and the AIDAB Agreement shall each have failed to become effective by April 30, 1995, September 30, 1995, and November 30, 1995 respectively, or such later dates as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) any event specified in paragraphs (c), (d), or (e) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (f) of Section 5.01 of this Agreement shall occur, subject to the proviso of the said Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and PLN; and

(b) that the Borrower and PLN have taken all necessary measures,

satisfactory to the Bank, required to achieve the rate of return of not less than eight percent (8%) of the average net current value of PLN's net fixed assets in operation as specified in Section 4.05 of the Project Agreement.

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 Project Agreement has been duly authorized or ratified by PLN, and is legally binding upon PLN in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PLN and is legally binding upon the Borrower and PLN 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

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes 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:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 139
Jakarta, Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

44319 DJMLN IA
45799 DEPKEU IA

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 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

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.

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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 under		
(a) Part A of the Project	64,200,000	85%
(b) Part B of the Project	7,000,000	28%
(2) Goods under		
(a) Part A of the Project	14,600,000)	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 65% of other items procured locally
)	
)	
)	
)	
(b) Part B of the Project	79,600,000)	
)	
(c) Part C of the Project	25,200,000)	
)	
(3) Consultants' services and training under		
(a) Part A of the Project (engineering and construction supervision)	16,400,000	80%
(b) Part B of the Project (engineering and construction supervision)	9,000,000	80%
(c) Part D.4 of the Project	3,200,000	100%
(d) Part D.5, D.6 and D.7 of the Project	5,300,000	80%
(4) Unallocated	36,000,000	

TOTAL

260,500,000

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 prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in the implementation of its long-term power sector policy agenda aimed at: (a) the increase of private sector participation in the power sector; (b) the reorganization and restructuring of PLN to improve its operational performance and service efficiency; (c) the formulation and implementation of regulations to promote efficiency in power sector operations; (d) the introduction of a formula-based periodic tariff adjustment mechanism to recover costs; (e) the strengthening of PLN's organizational capability and efficiency of operations in Sumatera and Kalimantan; and (f) the expansion of PLN's electricity generation and transmission capacity in Sumatera and Kalimantan.

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: Construction of Dam and Power Plant at Besai

1. Construction of a ninety (90) megawatt run-of-the-river type hydroelectric power plant at Besai including: (a) a nine (9) meter high intake dam with sluiceway, and scouringway and both abutments complete with gates and stoplogs; (b) a headrace tunnel, surge tank and an underground penstock; (c) a powerhouse about five (5) kilometers downstream to accommodate 2 x 45 megawatt generating units; and (d) an open channel tailrace.

2. Provision of about sixteen (16) kilometer long double-circuit, one hundred fifty (150) kilovolt transmission lines to interconnect with the nearest transmission system grid in the southern part of Sumatera.

Part B: Construction of Banjarmasin Thermal Power Plant at Asam-Asam

1. Construction of a one hundred thirty (130) (2 x 65) megawatt coal-fired, mine-mouth power station at Asam-Asam near Banjarmasin.

2. Provision of double circuit one hundred fifty (150) kilovolt transmission lines in South Kalimantan: (a) about seventy five (75) kilometer long from the Banjarmasin Thermal Power Plant to Cempaka; (b) about forty three (43) kilometer long from Cempaka substation to Trisakti substation, with an interconnection at Trisakti of the one hundred fifty (150) kilovolt bus with the seventy (70) kilovolt bus, and (c) about one hundred ten (110) kilometer long, from Cempaka to Barikin.

Part C: Mobile Power Plants

1. Provision of two (2) barge-mounted mobile power plants of ten (10) megawatt and thirty (30) megawatt generating capacity powered by diesel

engines and gas turbines respectively.

Part D: Institutional Strengthening and Reform

1. Corporate: (a) reorganization; and (b) restructuring of PLN with a view to commercializing and decentralizing PLN's management, administration, operations, accounting, and finance.
2. Establishment of guidelines to govern private sector participation in the development of the Borrower's power sector.
3. Preparation and implementation of principles and guidelines defining the participation of publicly-owned and private enterprises in the Borrower's power sector.
4. Strengthening of the Borrower's environmental management in the coal mining sector through the improvement of its environmental policy and regulatory framework and its environmental regulation enforcement capability in coal mines.
5. Strengthening of PLN's environmental management capability through the establishment of a specialized environmental unit within PLN to, inter alia, formulate corporate environment policies, including resettlement plans, evaluate environmental assessments of its development projects and management plans, and to monitor environmental impacts including compliance with regulations.
6. (a) Conducting an evaluation of alternative demand management program options, including technologies, delivery mechanisms and promotional framework; (b) developing PLN's institutional capability to conduct and/or manage the full range of activities required to implement the demand management options; (c) training of PLN and DGEED staff in the areas of demand management program design, monitoring and evaluation.
7. Carrying out of pilot projects in PLN's regions IV and VI involving decentralization aimed at efficiency improvement of PLN's operations.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 15, 2000	4,935,000
August 15, 2000	5,115,000
February 15, 2001	5,300,000
August 15, 2001	5,495,000
February 15, 2002	5,695,000
August 15, 2002	5,900,000
February 15, 2003	6,115,000
August 15, 2003	6,335,000
February 15, 2004	6,565,000
August 15, 2004	6,805,000
February 15, 2005	7,055,000
August 15, 2005	7,310,000
February 15, 2006	7,575,000
August 15, 2006	7,850,000
February 15, 2007	8,135,000
August 15, 2007	8,430,000
February 15, 2008	8,740,000
August 15, 2008	9,055,000
February 15, 2009	9,385,000
August 15, 2009	9,725,000
February 15, 2010	10,080,000
August 15, 2010	10,445,000
February 15, 2011	10,825,000

August 15, 2011	11,220,000
February 15, 2012	11,625,000
August 15, 2012	12,050,000
February 15, 2013	12,485,000
August 15, 2013	12,940,000
February 15, 2014	13,410,000
August 15, 2014	13,900,000

*The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, and 3 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$8,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) 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 paragraph 4 of this Schedule 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.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

