

CONFORMED COPY

LOAN NUMBER 2969-1 PH

(Bacon-Manito Geothermal Power Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NATIONAL POWER CORPORATION

Dated September 1, 1988

NPC LOAN AGREEMENT

AGREEMENT, dated September 1, 1988 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NATIONAL POWER CORPORATION (the Borrower).

WHEREAS (A) Republic of the Philippines (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of Parts (B), and (C) of the Project;

(B) Part (A) of the Project will be carried out by PNOC Energy Development Corporation (PNOC-EDC), a subsidiary of Philippine National Oil Company (PNOC), with the assistance of the Bank and, as part of such assistance, the Bank has agreed to make a loan (the PNOC Loan) under a Loan Agreement of even date herewith between the Bank and PNOC (PNOC Loan Agreement) under the terms and conditions therein set forth;

(C) the Guarantor intends to contract from the Republic of Italy (Italy) a loan (the Italian Loan) in an amount equivalent to \$60,000,000 to assist in financing of Part (B) of the Project on the terms and conditions set forth in an agreement (the Italian

Loan Agreement) to be entered into between the Guarantor and Italy;

(D) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the respective Borrowers in respect of the respective Loans and to undertake such other obligations as set forth in the Guarantee 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;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "NPC" means the National Power Corporation, a state-owned company duly authorized and operating under the laws of the Republic of the Philippines;

(c) "PNOC" means the Philippine National Oil Company, a state-owned company duly authorized and operating under the laws of the Republic of the Philippines;

(d) "PNOC-EDC" means PNOC Energy Development Corporation, a subsidiary of PNOC; and

(e) "PIC" means the Project Implementation Committee established by an agreement between NPC and PNOC and confirmed by the Republic of the Philippines, dated May 27, 1988.

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 in various currencies equivalent to fifty-nine million dollars (\$59,000,000).

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 Parts (B) and (C) of 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 Parts (B) and (C) of the Project, open and maintain in dollars a special account in a bank, and on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 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 Parts (B) and (C) 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, shall carry out Parts (B) and (C) of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out Parts (B) and (C) of the Project in accordance with: (i) the Implementation Program set forth in Schedule 5 to this Agreement; and (ii) sound environmental protection measures including those set forth in an action plan agreed with the Bank.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts (B) and (C) of 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 shall take all action which may be required on its part to ensure the timely conclusion of a soundly

based agreement between itself and PNOC or PNOC-EDC for the supply of steam needed for the Project.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. The Borrower shall furnish its investment programs on an annual basis to the Bank for its review and comment.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts 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: (A) certified copies of its financial statements for such year as so audited; and (B) 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, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with paragraph (a) of this Section, records and 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;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether 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.

Section 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall earn, for each of its fiscal years after its fiscal year ending on December 31, 1988, an annual return of not less than 8% of the average current net value of the Borrower's fixed assets in operation.

(b) Before December 1 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The annual return shall be calculated by dividing the Borrower's net operating income for the fiscal year in question by one half of the sum of the current net value of the Borrower's fixed assets in operation at the beginning and at the end of that fiscal year.
- (ii) The term "net operating income" means total operating revenues less total operating expenses.
- (iii) The term "total operating revenues" means revenues from all sources related to operations.
- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation in a manner consistent with the generally accepted accounting principles in the Philippines.
- (v) The average current gross value of the Borrower's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Borrower's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
- (vi) The term "current net value of the Borrower's fixed assets in operation" means the gross value of the Borrower's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory

to the Bank.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than six months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation,

obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NPC, or for the suspension of all or part of the operations of NPC.

(b) A Governing Regulation or any provision thereof shall have been repealed, amended, suspended or waived, so as to affect adversely: (i) the carrying out of Parts (B) and (C) of the Project; and (ii) the performance of NPC of any other of its obligations under this Agreement.

(c) The Italian Loan Agreement shall have failed to become effective by December 31, 1988, or such later date 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 Part (B) of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(A) the right of the Guarantor to withdraw the proceeds of any loan made to the Guarantor 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 Guarantor 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 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (c) of Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower;

(b) any of the events specified in paragraphs (a) and (b) of Section 6.01 of this Agreement shall occur; and

(c) the event specified in paragraph (d) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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) all conditions precedent to the effectiveness of the PNOC Loan Agreement between the Bank and PNOC of even date herewith (other than those related to the effectiveness of this Agreement) have been fulfilled; and

(b) the contract for the sale of steam specified in Section 3.03 of this Agreement has been executed in accordance with terms satisfactory to the Bank.

Section 7.02. The date (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The President of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

National Power Corporation
Quezon Avenue
East Triangle, Diliman
Quezon City, Philippines

Cable address:

NAPOCOR
Manila

Telex:

742-40120

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

NATIONAL POWER CORPORATION

By /s/ Emmanuel Pelaez
Authorized Representative

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) Equipment and materials	40,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 50% of local expenditures for other items procured locally
(2) Civil works	11,000,000	50%
(3) Consultants' services	3,000,000	100%
(4) Unallocated	5,000,000	
TOTAL	<hr/> 59,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$2,000,000, may be made on account of payments made for expenditures before that date but after March 31, 1988.

SCHEDULE 2

Description of the Project

The objectives of the Project are to:

- (a) support the delineation and assessment of geothermal resources for use in Luzon;
- (b) develop an existing geothermal steam field at Bacon-

Manito I and the associated power plant;

- (c) support measures for upgrading and expanding NPC's system facilities; and
- (d) support institution-building and financial recovery efforts of NPC and PNOC-EDC.

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

Part A: Geothermal Steam Exploitation and Distribution

- (1) Development of the Bacon-Manito I geothermal field including drilling of additional production and injection wells, and engineering, procurement, installation and commissioning of the steam-gathering system.
- (2) Delineation/appraisal of geothermal sites for power supply to the Luzon grid. This includes drilling of about 18 wells to an average depth of 2,800 meters, and studies for assessing the extent of geothermal resources and the feasibility of their development.

Part B: Power Plant and Associated Transmission System

- (1) Construction of the 2 X 55 MW Bacon-Manito geothermal power plant including turbine generators, auxiliary equipment, steam condensing and gas extraction systems, cooling towers and the 230 kV transformers.
- (2) Construction of about 32 km of double circuit 230 kV transmission line for evacuating power from the generating station and the 230 kV terminal equipment at the generating stations and at the Daraga switchyards.

Part C: Upgrading and Expansion of NPC's System Facilities

- (1) Expansion of substations including Bantay, Balintawak, San Jose, San Esteban, Laoag, Olongapo, Dasmariñas and Binan, construction of lines including about 21 km of 230 kV double circuit Balintawak-San Jose and about 121 km of 115 kV single circuit San Esteban-Laoag transmission lines and rehabilitation of substation transformers and switchgear in the Luzon grid; expansions of substations including Lugait, General Santos and Davao in the Mindano grid; and expansions of substations including Tunga, Santa Barbara, Panitan, Medellin and Bacolod in the Visayas grid.
- (2) Extension of communication link to Mindanao and Visayas and expanding telecommunication facilities of the Luzon grid 1 load dispatch system; installation of computer hardware and software for enhancing NPC's Management Information System (MIS); and procurement of mobile environmental monitoring units for NPC's environmental division.
- (3) Rehabilitation of instrumentation and controls for the 50 MW coal/oil-fired unit at the Naga thermal power station.
- (4) The carrying out of consultancy studies for:
 - (i) establishing the feasibility of transmitting power from Leyte to Luzon;

- (ii) Tongonan geothermal power plants study and development;
- (iii) establishing the feasibility of transmission interconnections to the islands of Masbate, Mindoro, Marinduque, Romblon, Catanduanes and Basilan;
- (iv) developing cost estimating techniques for Power System components, and a Computerised Data Base;
- (v) developing norms for cost of power supply outages; and
- (vi) establishing feasibility of the latest techniques in the construction of hydro-electric dams.

* * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 1, 1994	1,075,000
August 1, 1994	1,120,000
February 1, 1995	1,160,000
August 1, 1995	1,205,000
February 1, 1996	1,255,000
August 1, 1996	1,300,000
February 1, 1997	1,350,000
August 1, 1997	1,405,000
February 1, 1998	1,460,000
August 1, 1998	1,515,000
February 1, 1999	1,575,000
August 1, 1999	1,635,000
February 1, 2000	1,695,000
August 1, 2000	1,760,000
February 1, 2001	1,830,000
August 1, 2001	1,900,000
February 1, 2002	1,975,000
August 1, 2002	2,050,000
February 1, 2003	2,130,000
August 1, 2003	2,210,000
February 1, 2004	2,295,000
August 1, 2004	2,385,000
February 1, 2005	2,475,000
August 1, 2005	2,575,000
February 1, 2006	2,670,000
August 1, 2006	2,775,000
February 1, 2007	2,885,000
August 1, 2007	2,995,000
February 1, 2008	3,110,000
August 1, 2008	3,230,000

* 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

The following premiums are specified for the purposes of

Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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

Procurement

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the Republic of the Philippines may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Packages for equipment, materials and services not exceeding \$200,000 per contract and up to an aggregate amount of \$3,000,000 and poles for transmission lines and civil works for transmission lines and substations may be procured under contracts awarded on the basis of local competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

- (a) With respect to each contract for equipment, materials

and civil works estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist NPC in carrying out Part (C) (4) of the Project, NPC 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.

SCHEDULE 5

Implementation Program

1. In order to maintain its accounts receivable and accounts payable at levels consistent with proper commercial practices, the Borrower shall implement an action program which is acceptable to the Bank.

2. By December 1 of each year, the Borrower shall furnish to the Bank for its review and comments: (a) Borrower's budget for the coming fiscal year; and (b) Borrower's financial plan for the coming five fiscal years.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 Parts B and C of 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 US\$4 million 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 may 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 into 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 made 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 for Parts B and C 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 Parts B and C of the Project, 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 allocated to the eligible Categories for Parts B and C of the Project 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.

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 and with the Bank's consent, 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 cancellation or subsequent withdrawal as the Bank may determine.

