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CONFORMED COPY

LOAN NUMBER 4703 BUL

Loan Agreement

(District Heating Project)

between

TOPLOFIKACIA PERNIK

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 18, 2003

LOAN NUMBER 4703 BUL

LOAN AGREEMENT

AGREEMENT, dated June 18, 2003 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TOPLOFIKACIA PERNIK (PERNIK-DHC) (the Borrower).

WHEREAS (A) the REPUBLIC of BULGARIA (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan) and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) by an agreement dated October 16, 1991, between the European Commission and the EBRD, the European Commission agreed to provide technical assistance for the activities related to the implementation of the Project on the terms and conditions set forth in the EU PHARE/TACIS Program (the EU PHARE/TACIS Program); and

(D) by an agreement of even date herewith between TOPOLOFIKACIA SOFIA (SOFIA-DHC) and the Bank, the Bank agreed to make available to SOFIA-DHC a loan in an amount of □26,000,000 to assist financing the Project on the terms and conditions set forth in the District Heating Project – SOFIA-DHC Loan Agreement (the SOFIA-DHC Loan Agreement).

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 for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (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) “Environmental Management Plan” means the plan, satisfactory to the Bank, prepared and adopted by the Borrower, describing the environmental mitigation, monitoring, and operating measures under the Project;

(b) “FRP” means the Borrower’s Financial Recovery Plan, satisfactory to the Bank, prepared by the Borrower and endorsed by the Guarantor, dated May 12, 2003, and referred to in paragraph 3 of Schedule 5 to this Agreement; designed to enable the Borrower to achieve financial self sufficiency by December 2006 and outlining the measures to be undertaken by the Borrower and the Guarantor for such purposes, as the same may be modified from time to time with the approval of the Guarantor and the Bank;

(c) “Financial Management Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(d) “PIU” means the Borrower’s Project implementation unit within the Borrower, referred to in paragraph 2 of Schedule 5 to this Agreement;

(e) “PERNIK-DHC” means Toplofikacia Pernik EAD or Pernik District Heating JSC a uni-personally State owned joint stock company registered under Bulgarian Law under Pernik District Court Case No. 155/1996 on February 24, 1996;

(f) “Project Implementation Plan” means the plan referred to in paragraph 4 of Schedule 5 to this Agreement, satisfactory to the Bank;

(g) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(h) "SOFIA-DHC" means Toplofikacia Sofia EAD or Sofia District Heating JSC, a joint stock company registered under Bulgarian law under company file No. 1084/1993 under the Sofia City Court Inventory List on March 1, 1993 and jointly owned by the Municipality and the Guarantor.

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 seven million Dollars (\$7,000,000).

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 required for the Project 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) The Borrower may, for the purposes of the Project open and maintain in Dollars a special deposit account in the Bulgaria National Bank 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 June 30, 2008, 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 front-end 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 such 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 and the Guarantor 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 and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor 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 in arrears on April 15 and October 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, and, to this end, shall carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate financial, accounting, engineering, environmental, and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods required for Part B 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. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall provide evidence satisfactory to the Bank, by no later than October 30 of each year throughout implementation of Part B of the Project, that sufficient resources have been allocated in the Borrower's annual budget to cover all the counterpart funding requirements under this Part B of the Project for the year in question.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the sustainability of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(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 Project and the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 the financial statements referred to in paragraph (a) of this Section, for such year as so audited; and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may 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 or cause to be maintained, in accordance with paragraph (a) of this Section, 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;

- (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 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 (a) of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Part B of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Part B of the Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of this part of the Project; and
- (iii) sets forth the status of procurement under Part B of the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under Part B of the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative, financial, accounting and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers and shall not act in a way which would adversely affect its financial position;

(b) 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 environmental practices; and

(c) shall provide full disclosure to the Bank prior to modifying the structure and/or ownership of the company in a manner that would adversely affect Part B of the Project.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely that the auditors referred to in Section 4.01 of this Agreement have been employed in a manner satisfactory to the Bank.

Section 6.02. The following is specified as an additional matter, 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, namely that the Guarantee Agreement has been duly authorized or ratified, and is legally binding upon the Guarantor in accordance with its terms.

Section 6.03. The date of 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 Executive Director 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:

Toplofikacia Pernik
Thermopower Plant Republic
Moshino Neighborhood
Pernik, 2003
Republic of Bulgaria

Facsimile:

359 7667 0683

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Sofia, Republic of Bulgaria, as of the day and year first above written.

TOPLOFIKACIA PERNIK

By /s/ Ignat Bojinov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
South Central Europe Country Unit
Europe and Central Asia

SCHEDULE 1

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	6,930,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(2) Front-end fee	<u>70,000</u>	Amount due under Section 2.04 of this Agreement
TOTAL	<u>7,000,000</u>	

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 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 supplied from the territory of the Guarantor; provided, however, that if the currency of the Guarantor is also that of another country from the territory of which goods are supplied, expenditures in such currency for such goods shall be deemed to be “foreign expenditures”.

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods under contracts costing less than \$200,000 equivalent each under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve the quality of district heating services in the Districts of Sofia and Pernik; (b) improve the financial viability of the Borrower; and (c) increase environmental friendly operations in the district heating sector in the Districts of Sofia and Pernik, through energy conservation and pollution reduction mechanisms.

The Project consists of the following parts, subject to such modifications thereof as may be agreed upon from time to time for Part A of the Project between Sofia-DHC and the Bank and for Part B of the Project between the Borrower and the Bank, to achieve such objectives:

Part A

1. Network Rehabilitation

- (a) Replacement of transmission pipelines.
- (b) Replacement of thermal insulation over ground pipelines.
- (c) Replacement of valves and compensators in the transmission and distribution network.
- (d) Installation of variable speed pumping system at the main heat sources.

2. Sub-Station Rehabilitation

Replacement of sub-stations in the system

3. Project Management and Technical Assistance

- (a) Provision of technical assistance for the purposes of management, implementation and supervision of Part A of the Project, including audit services, and the carrying out of a public awareness campaign for energy conservation for Part A of the Project.

(b) Provision of technical assistance to introduce private sector participation in the production, transmission and distribution of heat.

Part B

1. Network Rehabilitation

(a) Replacement of transmission pipelines.

(b) Replacement of valves and compensators in the transmission and distribution network and the network monitoring system.

(c) Installation of variable speed pumping system at the main heat source.

2. Sub-Station Rehabilitation

Replacement of sub-stations in the district heating system.

3. Rehabilitation of Generation Plant

(a) Replacement of the outdated electrostatic precipitator for a boiler in the lignite fired combined heat and power plant.

(b) Rehabilitation of the chemical water treatment plant.

(c) Rehabilitation of automation and control equipment for the coal conveyor system.

4. Project Management and Technical Assistance

Provision of technical assistance for the purposes of management, implementation and supervision of Part B of the Project, including audit services, and the carrying out of a public awareness campaign for energy conservation for Part B of the Project.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On each April 15 and October 15	
beginning October 15, 2008	290,000
through October 15, 2019	290,000
On April 15, 2020	330,000

* 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

Part A: General

Goods 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 Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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 Guarantor.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the following additional provisions:

1. a point system of evaluation will not be used;
2. domestic preference will not be applied;
3. international bidders will not be excluded from bidding;
4. the draft NCB bidding documents will be prepared and submitted to the Bank for review and no-objection before any NCB tender is issued;
5. no bids will be rejected at the bid opening. All bids submitted on or before the deadline for submission of bids will be opened and read out at public bid opening;
6. local bidders shall demonstrate availability of obtaining securities and reasonable access to credit;
7. bid evaluation criteria shall not be pre-disclosed to bidders; and
8. technical specifications must be clearly written.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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

(a) With respect to each contract estimated to cost \$200,000 or more and the first contract procured under Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract to be procured in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Part B of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2005, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part B of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part B of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by October 31, 2005, or such later date as the Bank shall request, the mid-term report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Part B of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

2. The Borrower shall maintain during the execution of Part B of the Project, the PIU with staff and resources as shall be required to perform its duties in respect of overall management and implementation of this part of the Project, including reporting on the implementation of this part of the Project to the Borrower's Executive Director and Board of the Directors in a manner satisfactory to the Bank.

3. The Borrower shall: (a) at all times implement the FRP in a manner satisfactory to the Bank under Part B of the Project and carry out Part B of the Project in accordance with the FRP which shall include, *inter alia*, provisions whereby: (i) the levels of the tariffs proposed by the Borrower for approval by the Regulator shall progressively be sufficient to achieve full-cost recovery and financial self-sufficiency; (ii) operations will be run efficiently; and (iii) certain financial and operational targets leading to the progressive phase-out of subsidies will be achieved; and

(b) carry out semi-annual review of its financial performance, including a financial forecast for the following two years and ensure that sufficient resources have been allocated in the Borrower's annual budget to cover the counterpart funding requirements under Part B of the Project for each year in question, to determine progress

under the FRP, by April 30 and October 30 each year throughout the implementation of Part B of the Project, and thereafter discuss with the Bank the outcome of such reviews.

4. The Borrower shall carry out Part B of the Project in accordance with the Project Implementation Plan setting forth the work program for the implementation of the Project and the key instruments for the execution, coordination of the Project, including procurement and financial management procedures, and the Environmental Management Plan.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Category” means Category (1) 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 required for Part B 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 the amount of \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$250,000 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 be equal to or exceed the equivalent of \$2,000,000.
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 deposit into the Special Account of an amount or amounts 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 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;

- (b) 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 the records and accounts for the Special Account;

- (c) 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 the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Category, 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 allocated to the eligible Categories 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, 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.