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CONFORMED COPY

LOAN NUMBER 7311-PH

Loan Agreement

(Manila Third Sewerage Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

LAND BANK OF THE PHILIPPINES

Dated July 22, 2005

LOAN NUMBER 7311-PH

LOAN AGREEMENT

AGREEMENT, dated July 22, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and LAND BANK OF THE PHILIPPINES (the Borrower).

WHEREAS (A) The 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 the Manila Third Sewerage Project (the Project);

(B) 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 Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Project will be carried out by Manila Water Company, Inc. (MWCI) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to MWCI, as set forth 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 agreement of even date herewith between the Bank and MWCI (the Project 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 Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”.

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Bangko Sentral ng Pilipinas” means the central bank of the Guarantor and any successor thereto.

(b) “Displaced Person” means a person who, on account of the execution of the Project or any proposed realignment of the dike at the Lupang Arrienda (near the Tapayan Pond) as may be approved by DPWH, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, the plural thereof.

(c) "DPWH" means the Guarantor’s Department of Public Works and Highways, and any successor thereto.

(d) “Environmental and Social Assessment Framework” means the framework, dated February 11, 2005, describing measures for the mitigation of the potential environmental and social impact of the Project, as the same may be amended from time to time with the prior agreement of the Bank.

(e) “Environmental Management Plan” or its acronym “EMP” means the environmental management plan, dated February 11, 2005, which sets out environmental protection measures with respect to the Project implementation, as well as administrative and monitoring arrangements to ensure the implementation of said Plan, as the same may be amended from time to time with the prior agreement of the Bank.

(f) “Financial Management Manual” means the Manual referred to in paragraph 2 of Schedule 2 to the Project Agreement, as said Manual may be amended from time to time with the prior agreement of the Bank.

(g) “LBP Charter” means the charter of the Borrower, the Republic Act 3844, dated August 8, 1963, as amended to the date of this Agreement.

(h) “Land Acquisition, Resettlement and Rehabilitation Policy Framework” means the framework, dated January 2005, providing procedures, rules, and guidelines for: (i) the involuntary taking of land and other assets from Displaced Persons, (ii) resettlement and rehabilitation of, and compensation to, Displaced Persons, and (iii) reporting and monitoring arrangements to ensure compliance with such framework, as such framework may be amended from time to time with the prior agreement of the Bank.

(i) “MWCI” means Manila Water Company, Inc., a privately-owned corporation established and operating pursuant to its Articles of Incorporation dated December 11, 1996, as amended to the date of this Agreement, responsible for providing water supply and sanitation services in Metro Manila according to the MWCI Concession Agreement; and any successor thereto.

(j) “MWCI Concession Agreement” means the agreement entered into between MWCI and MWSS, dated February 21, 1997, as amended to the date of this Agreement.

(k) “MWSS” means Metropolitan Waterworks and Sewerage System, the agency of the Republic of the Philippines established under Republic Act 6243, responsible for developing, operating and maintaining water supply, sewerage and sanitation systems in and around Metro Manila, and any successor thereto.

(l) “MWSS RO” means the regulatory office established in MWSS to monitor and enforce compliance with concession agreements entered into between MWSS and its concessionaires, to review water and sewerage tariffs, and to respond to water and sewerage service complaints; and any successor thereto.

(m) “Procurement Plan” means MWCI’s procurement plan, dated March 11, 2005 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 2.02 (b) to the Project Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(n) “Project Agreement” means the agreement between the Bank and MWCI of even date herewith, as the same may be amended from time to time, and such terms includes all schedules and agreements supplemental to the Project Agreement.

(o) “Project Delivery Team” means the team referred to in paragraph 1 of Schedule 2 to the Project Agreement.

(p) “Rate Rebasing” means the re-evaluation of MWCI’s water and sewerage tariffs and MWCI’s service coverage targets every five (5) years by MWSS RO as provided in the MWCI Concession Agreement.

(q) “Resettlement Action Plans” means collectively, the Resettlement Action Plan for Displaced Persons with respect to Part A(2) of the Project, dated March 4, 2005; and the Resettlement Action Plan for Displaced Persons with respect to Part B(2) of the Project, dated March 4, 2005; and all referred to in paragraph 3 (a) of Schedule 2 to the Project Agreement, which set out the principles and procedures governing land acquisition, resettlement, compensation and rehabilitation of Displaced Persons, as well as administrative, reporting and monitoring arrangements to ensure compliance with said plans, as said plans may be revised from time to time with the prior agreement of the Bank.

(r) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

(s) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and MWCI pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time with the prior agreement of the Bank, and such term includes all schedules to 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 this Agreement, an amount equal to six billion five hundred ninety two million Japanese Yen (¥6,592,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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, works and services required for the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a separate special deposit account in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and 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 June 30, 2010 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. (a) 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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment 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 provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7)

of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

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, without any limitation or restriction upon any of its other obligations under this Agreement, shall: (i) cause MWCI to perform in accordance with the provisions of the Project Agreement all the obligations of MWCI therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable MWCI to perform such obligations; (iii) and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to MWCI under the Subsidiary Loan Agreement satisfactory to the Bank, to be entered into between the Borrower and MWCI, under terms and conditions which shall have been approved by the Bank and which shall include, but not limited to, the following:

- (i) the principal amount of the subsidiary loan shall be denominated and repayable in Yen;
- (ii) the subsidiary loan shall be made for a period of seventeen (17) years, including a grace period not to exceed five (5) years;
- (iii) MWCI shall pay interest on the principal amount of the subsidiary loan withdrawn and outstanding from time to time at the rate of 1.25% above the rate applicable to the Loan pursuant to Section 2.06 of this Agreement; and
- (iv) MWCI shall pay a commitment charge on the principal amount of the subsidiary loan not withdrawn from time to time at a rate equal to the rate applicable to the Loan pursuant to Section 2.05 of this Agreement.

(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) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall cause MWCI to update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank

not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

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) shall be carried out by MWCI pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, 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 financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, 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) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Bank has received the audit

report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies of the Bank

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

(a) MWCI 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 MWCI will be able to perform its obligations under the Project Agreement.

(c) MWCI Concession Agreement or any provision thereof shall have been amended, breached, suspended, voided or waived so as to affect materially and adversely the ability of MWCI to perform any of its obligations under the Project Agreement.

(d) LBP Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operation or the financial condition of the Borrower or the performance of any of its obligations under this Agreement.

(e) The MWCI's Articles of Incorporation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operation or the financial condition of MWCI, or its ability to carry out the Project, or the performance of any of its obligations under the Project Agreement.

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

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

(a) Any events specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

(b) Any events specified in paragraphs (d), (e) and (f) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreement, satisfactory to the Bank, has been executed on behalf of the Borrower and MWCI;

(b) MWCI has adopted and put into effect the Financial Management Manual, acceptable to the Bank; and

(c) MWCI has obtained from the Guarantor's Department of Environment and Natural Resources environmental compliance certificates for carrying out Parts A and B of the Project, satisfactory to the Bank.

Section 6.02. The following events 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 MWCI, and is legally binding upon MWCI in accordance with its terms; and

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

For the Borrower:

Land Bank of the Philippines
1598 M. H. del Pilar Cor. Dr. J. Quintos Street
Malate, 1004 Manila
Republic of the Philippines

Telex:

64045 LBP PH

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Christopher Hoban

Authorized Representative

LAND BANK OF THE PHILIPPINES

By /s/ Gilda Pico

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:

<u>Category</u>	<u>Amount of the Loan (Expressed in Japanese Yen)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works	5,743,000,000	75%
(2) Goods	660,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3) Consultants' Services	189,000,000	82% for individual consultants, 87% for consulting firms, and 100% for tax-exempt consultants
	<hr/>	
TOTAL	<u>6,592,000,000</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 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 any Category set forth in the table in paragraph 1 of this Schedule unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 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 under contracts for: (a) goods costing less than \$1,000,000 equivalent per contract; (b) civil works costing less than \$10,000,000 equivalent per contract; (c) for services of individual consultants costing less than \$200,000 equivalent per contract; and (d) for services of consulting firms costing less than \$750,000 equivalent per contract; all 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 assist the Republic of the Philippines to: (i) increase the coverage and effectiveness of sewerage service delivery in participating areas of Metro Manila through an integrated approach involving septage management, sewerage management, and heightened consumer awareness of water pollution problems and their solutions; and (ii) establish the financial and technical viability of new approaches for sewerage management in Metro Manila.

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: Sewage Management

1. Construction of: (i) about four (4) sewage treatment plants for the Taguig sewerage system; (ii) about three (3) sewage treatment plants for the Riverbanks sewerage system; (iii) about one sewage treatment plant for the Quezon City-Marikina sewerage system; and (iv) about two (2) sewage treatment plants serving low income communities along the Manggahan Floodway and the Signal Village; all including interceptor sewers, pumping stations, and repair of existing drainage.
2. Upgrading of the Quezon City sanitation sewerage system, including modification of communal septic tanks, inceptors sewers, pumping stations, and repair of existing sewer lines in Quezon City.

Part B: Septage Management

1. Provision of about seventy (70) fecal tankers with a capacity of about 5 to 10 cubic meters per day (m³/d), along with vacuum pumping equipment; and specialized equipment for transport and application of dewatered septage on soil.
2. Construction of a septage treatment plant with a capacity of about 800 cubic meters per day (m³/d); and a septage treatment plant with a capacity of about 600 cubic meters per day (m³/d).

Part C: Institutional Strengthening

1. Carrying out a public information campaign on the environmental benefits of sewage and sanitation services and the best practices of proper disposal of sewage.
2. Assisting in preparation of follow-up programs for sewage and sanitation improvements.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15 Beginning October 15, 2010 through October 15, 2021	4.17%
On April 15, 2022	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

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, works 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 \$4,000,000 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 an amount equivalent to \$2,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of ¥1,800,000,000.
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 Categories 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.