

CONFORMED COPY

LOAN NUMBER 3209 IND

(Gas Utilization Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 6, 1990

LOAN NUMBER 3209 IND

LOAN AGREEMENT

AGREEMENT, dated July 6, 1990, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) Parts A, B and C (i) of the Project will be carried out by Perusahaan Umum Gas Negara (hereinafter called PGN) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PGN a portion of the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agree-

ment of even date herewith between the Bank and PGN;

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) "fiscal year" or "FY" mean PGN's fiscal year beginning April 1 and ending March 31;

(b) "Governing Laws" means Government Act No. 19 of 1960, Law No. 9 of 1969, Government Regulation No. 27 of 1984, and any other legal provisions in force at any time governing the organization and operations of PGN as any of them may be amended or supplemented from time to time;

(c) "LEMIGAS" means the Research and Development Center for Oil and Gas Technology (Pusat Penelitian dan Pengembangan Teknologi Minyak dan Gas Bumi) established and operating in MIGAS since 1984;

(d) "MIGAS" means the Directorate General of Oil and Natural Gas in MME;

(e) "MME" means the Borrower's Ministry of Mines and Energy;

(f) "Project Agreement" means the agreement between the Bank and PGN of even date herewith, as the same may be amended from time to time, and such term includes all schedules and Agreements supplemental to the Project Agreement;

(g) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PGN pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and

(h) "Special Account" referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of eighty six million dollars (\$86,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia 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 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1996, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

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

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

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

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

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause PGN to perform in accordance with the provisions of the Project Agreement all the obligations of PGN therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PGN to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance. To that end, the Borrower shall ensure that sufficient funds to cover expenditures required for the Project shall be made available to PGN in a timely manner; and

(b) shall carry out Part C (ii) of the Project through LEMIGAS, and Parts C (iii) and D of the Project through MIGAS, all with due diligence and efficiency and in conformity with appropriate administrative, engineering and financial practices, and shall provide the funds, facilities, services and other resources required for such Parts of the Project. To that end, the Borrower shall ensure that sufficient funds to cover expenditures required for such Parts of Project shall be made available to LEMIGAS (an estimated \$9,200,000 equivalent out of the proceeds of the Loan) and to MIGAS (an estimated \$800,000 equivalent out of the proceeds of the Loan).

Section 3.02. (a) The Borrower shall out of the proceeds of the Loan relend to PGN an amount equivalent to \$76,000,000 under a subsidiary loan agreement to be entered into between the Borrower and PGN, under terms and conditions which shall have been approved by the Bank which shall include: (i) interest at a rate of 13% per annum; (ii) repayment over 15 years including five years grace; and (iii) foreign exchange risk to be borne by the Borrower.

(b) 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 3.03. Except as the Bank shall otherwise agree:

(a) procurement of the goods and works required for Parts A, B and C (i) of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to the Project Agreement; and

(b) procurement of the goods and services required for Parts C (ii), C (iii) and D 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 3.04. (a) The Bank and the Borrower hereby agree that in respect of Parts A, B and C (i) of the Project 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 PGN pursuant to Section 2.03 of the Project Agreement.

(b) Without limitation on the foregoing, the Borrower shall ensure that PGN obtains, in a timely fashion, the necessary rights of way/way leave for the pipelines to be built under the Project.

Section 3.05. The Borrower shall cause PGN to maintain, at all times, a salary structure at a level as remunerative as that of other similar public corporations (PERUMS).

Section 3.06. The Borrower shall, through its Ministry of Mines and Energy prepare and furnish to the Bank, for its review and comments, a proposal for the establishment of a Gas Technology Development Unit under Part C (ii) of the Project, which proposal to take account of the recommendations of the planning study currently being undertaken by MIGAS for such purposes and, thereafter, taking into account the Bank's comments, if any, establish such development unit in accordance with a timetable satisfactory to the Bank.

ARTICLE IV

Financial and Other Covenants

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

(b) The Borrower shall:

- (i) have the accounts referred to in paragraph (a) of this Section, and those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by the 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 accounts and the audit thereof and said records as the Bank shall from time to time reasonably request, including without limitation on the foregoing its unaudited accounts as soon as available, but not later than six months after the end of each such year.

(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 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 expenditures 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.

ARTICLE V

Remedies of the Bank

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

(a) a default shall occur in the performance by PGN of any of its obligations under the Project Agreement;

(b) the Borrower shall have taken any action for the dissolution or disestablishment of PGN or for the suspension of its operations, without having obtained the prior concurrence of the Bank;

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

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

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

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

(b) any of the events specified in paragraphs (b), (c) or (d) 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 the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

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

(b) the execution of a gas supply contract, acceptable to the Bank, for the supply of natural gas to PGN's Surabaya and Medan transmission and distribution systems covering the Project requirements; and

(c) the execution of a technical assistance agreement, acceptable to the Bank, with an established gas utility in order to assist PGN in the implementation of the Project.

Section 6.02. The following are specified as additional

matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

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

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PGN and is legally binding upon the Borrower and PGN in accordance with its terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Minister of Finance
c/o Director General Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 2458
Jakarta, Indonesia

Cable address:

MINISTRY FINANCE
Jakarta

Telex:

DJMLN JKT 45799
DJMDN JKT 46415
DEPKEU JKT 44319

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:

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

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

REPUBLIC OF INDONESIA

By /s/ Abdul Rachman Ramly
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam Kaji
Acting Regional Vice President
Asia

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) Works for Parts A and B of the Project	20,800,000	100%
(2) Goods:		
(a) for Parts A, B and C(i) of the Project	46,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(b) for Part C(ii) of the Project	5,000,000	
(3) Consultants' services:		
(a) for Part C(ii) of the Project	2,000,000	
(b) for Part D of the Project	300,000	100%
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Training:		
(a) for Part C(i) of the Project	2,500,000	
(b) for Part C(ii) of the Project	1,500,000	100% of foreign expenditures
(c) for Part C(iii) of the Project	500,000	
(5) Unallocated	7,400,000	
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TOTAL	86,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made for expenditures in respect of:

(a) Category (2) (b) and Category (3) (a) until the Bank shall have received (i) the Borrower's approval of the organization of the Gas Technology Development Unit as determined by its planning study, including an implementation schedule and reporting requirements satisfactory to the Bank, and (ii) a signed technical assistance agreement, satisfactory to the Bank, with an established gas technology institute; and

(b) Category (3) (b) until the Bank shall have approved the terms of reference and the expertise required for the conduct of each of the studies referred to in Part D of Schedule 2 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to promote the use of natural gas as fuel for power generation, manufacturing industries and commercial entities in and around Surabaya and Medan; to develop Indonesian expertise in long-term planning of gas utilization through the skills upgrading of PGN, MIGAS, and LEMIGAS; to improve PGN's management capabilities; to develop cost effective standards and to promote the establishment of a regulatory system for safe and efficient transportation and utilization of natural gas.

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: Provision of Natural Gas Supply System in Surabaya and its surrounding areas:

- (i) Laying of about 80 km of high pressure transmission pipelines, about 190 km of medium pressure steel pipelines and about 165 km of medium pressure polyethylene pipelines;
- (ii) Construction of gas metering, pressure regulating and odorization stations with associated instrumentation downstream of the city gate stations at about five locations, and about four pressure reducing stations on the pipeline networks; and
- (iii) Construction of service lines, pressure regulation and flow metering stations of about 375 medium size industries and about 150 commercial enterprises and the paper mill in Leces.

Part B: Expansion of Natural Gas Supply System for Medan:

- (i) Construction of about 24 km of high pressure transmission pipeline with associated cathodic protection, pressure/flow monitoring facilities and three pressure reducing stations; and

- (ii) Construction of service lines and pressure regulating and flow metering stations for PLN power station at Belawan.

Part C: Technical Assistance:

- (i) Enhancement of PGN's skills in market development; planning, design, construction management and operation of natural gas compression, transmission and distribution systems; financial management, cost control and long-term planning; and efficient implementation of its expansion project, including provision of related goods;
- (ii) Strengthening of LEMIGAS through, inter alia, the establishment of a Gas Technology Development Unit and provision of related goods; and
- (iii) Upgrading skills in MIGAS to facilitate the coordination of development plans in the gas sector and to institute a regulatory system for safe utilization of natural gas.

Part D:

The carrying out of feasibility studies for, inter alia, natural gas marketing in Palembang (South Sumatra), Jambi (Central Sumatra), Batam Island (Riau), and Balikpapan.

* * *

The Project is expected to be completed by March 31, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
February 15, 1996	1,565,000
August 15, 1996	1,625,000
February 15, 1997	1,690,000
August 15, 1997	1,755,000
February 15, 1998	1,825,000
August 15, 1998	1,895,000
February 15, 1999	1,965,000
August 15, 1999	2,045,000
February 15, 2000	2,120,000
August 15, 2000	2,205,000
February 15, 2001	2,290,000
August 15, 2001	2,380,000
February 15, 2002	2,470,000
August 15, 2002	2,565,000
February 15, 2003	2,665,000
August 15, 2003	2,770,000
February 15, 2004	2,875,000
August 15, 2004	2,990,000
February 15, 2005	3,105,000
August 15, 2005	3,225,000
February 15, 2006	3,350,000
August 15, 2006	3,480,000
February 15, 2007	3,615,000
August 15, 2007	3,755,000
February 15, 2008	3,900,000
August 15, 2008	4,050,000
February 15, 2009	4,205,000
August 15, 2009	4,370,000
February 15, 2010	4,540,000
August 15, 2010	4,710,000

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

Premiums on Prepayment

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

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods 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 Indonesia 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

With respect to Part C (ii) of the Project, goods estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures

acceptable 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 goods estimated to cost the equivalent of \$300,000 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 5 to this Agreement.

(c) The provisions of the preceding subparagraph (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, together with such other information as the Bank shall reasonably request, shall be retained in accordance with Section 4.01 (c) (ii) of the Loan 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 the Borrower in carrying out Parts C (ii), C (iii) and D of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means all 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, 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 \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

