

CONFORMED COPY

LOAN NUMBER 3032 HU

(Second Transport Project)

between

HUNGARIAN PEOPLE'S REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 10, 1989

LOAN AGREEMENT

AGREEMENT, dated July 10, 1989, between HUNGARIAN PEOPLE'S REPUBLIC (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) Part B of the Project will be carried out by the Budapest Transport Company (BKV) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to BKV part of the proceeds of the Loan as provided in this Agreement;

(C) Part C of the Project will be carried out by the Hungarocamion International Freight Company (HC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to HC part of the proceeds of the Loan as provided in this Agreement;

(D) Part D of the Project will be carried out by the Hungarian State Railways (MAV) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to MAV part 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 BKV Project Agreement, the HC Project Agreement and the MAV Project Agreement, all of even date herewith between the Bank and each of BKV, HC and MAV, respectively;

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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MTCC" means the Borrower's Ministry of Transport, Communications and Construction, or any successor thereto;

(b) "BKV" means the Budapest Transport Company, a state enterprise established by Resolution No. 427428/67, dated October 11, 1967 of the Executive Committee of the Budapest Municipal Council;

(c) "HC" means the Hungarocamion International Freight Company, a state enterprise established by Resolution No. 577614/1965, dated December 22, 1965, of the Borrower's Minister of Transport and Communications;

(d) "MAV" means the Hungarian State Railways, a state enterprise established by Resolution No. 7612/I/9/1950, dated February 14, 1950, of the Borrower's Minister of Transport and Communications;

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

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

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

(h) "BKV Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BKV pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time;

(i) "HC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and HC pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time;

(j) "MAV Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and MAV pursuant to Section 3.01 (e) of this Agreement, as the same may be amended from time to time;

(k) "Transport Sector Plan" means the Borrower's plan for improving the operations of its transport sector over the 1989-1993 period; and

(l) "Special Account" means the 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, an amount in various currencies equivalent to ninety five million dollars (\$95,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project 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 account in the National Bank of Hungary 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 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995, 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 per cent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

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

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

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

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 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.

Section 2.08. The President of the National Bank of Hungary, or such other person or persons as said President shall designate in writing, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### 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) The Borrower shall: (i) carry out Part A of the Project through MTCC with due diligence and efficiency and in conformity with appropriate technical, engineering, administrative and financial practices, and provide, promptly as needed, the funds, facilities, services and other resources required for the purposes; and (ii) in order to facilitate the carrying out of Part A (6) of the Project and without limitation on the generality of the above (A) prepare and furnish to the Bank, by December 31 of each year starting with December 31, 1989, the Borrower's program for road strengthening and surface treatment works to be carried out during the next year under Part A (6) of the Project; (B) finalize said program after taking into consideration the Bank's comments thereon; and (C) thereafter carry out said works in accordance with said program.

(b) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause BKV, HC and MAV to perform in accordance with the provisions of the BKV Project Agreement, the HC Project Agreement and MAV Project Agreement all their respective obligations 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 BKV, HC and MAV to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) For the purpose of carrying out Part B of the Project, the Borrower shall relend the equivalent of the proceeds of the Loan referred to in paragraph 1 of Schedule 5 to this Agreement to BKV under a subsidiary loan agreement to be entered into between the Borrower and BKV under terms and conditions which shall have been approved by the Bank, including, without limitation, the principal terms set forth in said paragraph 1.

(d) For the purpose of carrying out Part C of the Project, the Borrower shall relend the equivalent of the proceeds of the Loan referred to in paragraph 2 of Schedule 5 to this Agreement to HC under a subsidiary loan agreement to be entered into between the Borrower and HC under terms and conditions which shall have been approved by the Bank, including, without limitation, the principal terms set forth in said paragraph 2.

(e) For the purpose of carrying out Part D of the Project, the Borrower shall relend the equivalent of the proceeds of the Loan referred to in paragraph 3 of Schedule 5 to this Agreement to MAV under a subsidiary loan agreement to be entered into between the Borrower and MAV under terms and conditions which shall have been approved by the Bank, including, without limitation, the principal terms set forth in said paragraph 3.

(f) The Borrower shall exercise its rights under the BKV Subsidiary Loan Agreement, the HC Subsidiary Loan Agreement and

the MAV 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 any of the said Agreements or any provision thereof.

Section 3.02. (a) The Borrower shall employ consultants, whose qualifications, experience and terms of reference shall be satisfactory to the Bank, to assist the Borrower in: (i) the coordination and monitoring of the overall execution of the Project and the preparation and furnishing to the Bank of the plans, schedules, reports and other information referred to in Sections 9.06 and 9.07 of the General Conditions; and (ii) the carrying out of Part A of the Project.

(b) The Borrower shall: (i) take all measures required on its part to ensure that the study under Part A (5) of the Project shall be initiated, under terms of reference satisfactory to the Bank, by December 31, 1989, and completed and a copy thereof furnished to the Bank by June 30, 1991; (ii) afford the Bank a reasonable opportunity to exchange views with the Borrower on the conclusions and recommendations of said study; and (iii) thereafter, prepare feasibility studies and engineering designs for the further expansion of river transport and ports within its territory on the basis of the recommendations of said study and after taking into consideration the Bank's comments thereon.

(c) The Borrower shall appoint a suitably qualified staff member of MTCC to be responsible, in respect of Part A of the Project, for the liaison and coordination with the consultants to be employed under paragraph (a)(i) of this Section.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 6 to this Agreement.

Section 3.04. The Borrower shall, pursuant to Section 9.09 of the General Conditions, acquire, not later than June 30, 1990, the land and rights in respect of land required for the carrying out of Part A (1) of the Project.

Section 3.05. 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, in respect of: (a) Part B of the Project, by BKV pursuant to Section 2.04 of the BKV Project Agreement; (b) Part C of the Project, by HC pursuant to Section 2.03 of the HC Project Agreement; and (c) Part D of the Project, by MAV pursuant to Section 2.04 of the MAV Project Agreement.

#### ARTICLE IV

##### 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 Part A of the Project of MTCC and the agencies of the Borrower responsible for carrying out thereof.

(b) The Borrower shall:

(i) have the records and 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 six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
  - (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.
- (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 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. The Borrower shall:

- (a) carry out the Transport Sector Plan with due diligence and efficiency and at all times take all necessary action required for the purpose;
- (b) prepare and furnish to the Bank by May 31 of each year, a report, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the said Plan and the measures recommended to sustain and further such progress;
- (c) afford the Bank a reasonable opportunity to exchange views with the Borrower on the details of the report referred to in paragraph (b) of this Section; and
- (d) thereafter, promptly take all such additional measures to achieve the objectives of the said Plan during the next twelve months period on the basis of the recommendations of the report referred to in paragraph (b) of this Section and after taking into consideration the Bank's views thereon.

Section 4.03. The Borrower shall: (a) cause the roads included under Part A (1) and (6) of the Project to be maintained and necessary repairs thereof to be made, all in accordance with sound engineering and road maintenance standards and practices; and (b) provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

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) BKV, HC or MAV shall have failed to perform any of its obligations under the BKV Project Agreement, the HC Project Agreement or the MAV Project Agreement, respectively.

(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 BKV, HC or MAV will be able to perform its obligations under the BKV Project Agreement, the HC Project Agreement or the MAV Project Agreement, respectively.

(c) Any law, decree, or resolution pertaining to the establishment or operations of BKV, HC or MAV shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of BKV, HC or MAV to perform any of its obligations under the BKV Project Agreement, the HC Project Agreement or the MAV Project Agreement, respectively.

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

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) the events specified in paragraphs (c) and (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 BKV Subsidiary Loan Agreement, the HC Subsidiary Loan Agreement and the MAV Subsidiary Loan Agreement have been executed on behalf of the parties thereto;

(b) the consultants referred to in Section 3.02 (a)(i) of this Agreement have been employed by the Borrower; and

(c) the staff members referred to in Section 3.02 (b) of this Agreement, Section 2.07 of the BKV Project Agreement, Section 2.06 of the HC Project Agreement and Section 2.07 of the MAV Project Agreement have been appointed by the Borrower, BKV, HC and MAV, respectively;

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 BKV Project Agreement, the HC Project Agreement and the MAV Project Agreement have been duly authorized or ratified by BKV, HC and MAV, respectively, and are legally binding upon BKV, HC and MAV in accordance with their respective terms;

(b) that the BKV Subsidiary Loan Agreement, the HC Subsidiary Loan Agreement and the MAV Subsidiary Loan Agreement have been duly authorized or ratified by the respective parties thereto and are legally binding upon such parties in accordance with their respective 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

##### Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the First Deputy President and the Managing Director of the National Bank of Hungary are severally designated as representatives 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:

National Bank of Hungary  
Department for International  
Development Institutions  
H-1850 Budapest  
Szabadsag ter 8-9  
Hungarian People's Republic

Cable address:

BANKO  
Budapest

Telex:

227267 SMAFU-H,  
225755 BANKO-H or  
227028 BANKO-H

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

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

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.

HUNGARIAN PEOPLE'S REPUBLIC

By /s/ Laszlo Udvari

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Eugenio Lari

Acting Regional Vice President  
Europe, Middle East and North Africa



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<br>Loan Allocated<br>(Expressed in<br>Dollar Equivalent) | % of<br>Expenditures<br>to be Financed  |
|--|--|---|
| (1) Part A of the<br>Project (MTCC):         |  |   |
| (a) Works under<br>subpart (1)               | 22,100,000   | 35%   |
| (b) Works under<br>subpart (6)               | 25,000,000   | 40%   |
| (c) Goods and tech-<br>nical licenses        | 6,000,000 )  |   |
| (d) Consultants'<br>services and<br>training | 800,000 )  |   |
| (2) Part B of the<br>Project (BKV):          |  |   |
| (a) Goods and<br>technical<br>licenses       | 2,700,000 )  |   |
| (b) Consultants'<br>services and<br>training | 300,000 )  |   |
|  |  | 100% of foreign<br>expenditures and<br>100% of local<br>(ex-factory cost)<br>for goods and<br>100% foreign<br>expenditures<br>for technical<br>licenses, con-<br>sultants' services<br>and training |
| Category                                     | Amount of the<br>Loan Allocated<br>(Expressed in<br>Dollar Equivalent) | % of<br>Expenditures<br>to be Financed  |
| (3) Part C of<br>the Project (HC):           |  |   |
| (a) Goods and<br>technical<br>licenses       | 6,000,000 )  |   |
| (b) training                                 | 100,000 )  |   |
| (4) Part D of the<br>Project (MAV):          |  |   |
| (a) Goods and<br>technical<br>licenses       | 24,700,000 )   |   |
| (b) Consultants'<br>services and<br>training | 300,000 )  |   |
|  |  | 100% of foreign<br>expenditures and<br>100% of local<br>(ex-factory cost)<br>for goods and<br>100% foreign<br>expenditures<br>for technical<br>licenses, con-<br>sultants' services<br>and training |
| (5) Unallocated                              | 7,000,000  |   |

TOTAL

95,000,000

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 in respect of payments made for expenditures prior to the date of this Agreement.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to assist in the carrying out of programs further to improve the management and operations and increase the economic and financial efficiencies of the Borrower's transport sector.

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: MTCC

(1) Construction of about 14 kilometers of highways to extend the M-O Motorway between Route 6 and the M-1 and M-7 Motorways, including the provision of related interchanges and overpasses and necessary works on existing roads, railroads and utilities affected by such construction.

(2) Provision of an emergency call system for the M-O Motorway.

(3) Provision of road maintenance, axle load control and quality control equipment.

(4) Provision of staff training in environmental standards and road maintenance and traffic safety policies and techniques.

(5) Provision of a study to develop a master plan for the further expansion of river transport and ports and, based on the recommendations of said study, preparation of feasibility studies and engineering designs for such further expansion.

(6) Carrying out of a program for the strengthening and surface treatment of existing national roads.

##### Part B: BKV

(1) Provision of a traffic control system consisting of automatic vehicle monitoring, centralized traffic light control and automatic power supply control subsystems.

(2) Provision of staff training in the management and operation of the traffic control system under Part B (1) of the Project.

(3) Provision of a management and organization improvement study to develop low-cost methods for increasing operational efficiency and competitiveness.

##### Part C: HC

- (1) Provision of an integrated computerized information system.
- (2) Provision of handling equipment for transit distribution facilities.
- (3) Provision of staff training in the strategic planning and marketing and in the management and operations of the information system under Part C (1) of the Project.

Part D: MAV

- (1) Provision of a transport management information system.
- (2) Provision of track maintenance and construction equipment.
- (3) Construction and equipping of a recycling plant for used rails.
- (4) Provision of staff training in the management and operations of the information system under Part D (1) of the Project and the recycling plant under Part D (3) of the Project.
- (5) Provision of a railways costing study to formulate a uniform costing system for effective cost control and pricing policy.

\* \* \* \*

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3  
Amortization Schedule

| Date Payment Due                                     | Payment of Principal<br>(Expressed in dollars)* |
|--|---|
| On each June 15 and December 15                      |   |
| beginning December 15, 1994<br>through June 15, 2004 | 4,750,000                                       |

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

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

| Time of Prepayment   | Premium   |
|--|---|
|  | The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by: |
| Not more than three years before maturity                          | 0.20  |
| More than three years but not more than six years before maturity  | 0.40  |
| More than six years but not more than eleven years before maturity | 0.73  |

More than eleven years but not  
more than thirteen years  
before maturity 0.87

More than thirteen years before  
maturity 1.00

#### SCHEDULE 4

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$6,000,000 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 made out of the Special Account for eligible expenditures.

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

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

eligible expenditures.

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

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories 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; (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.

#### SCHEDULE 5

Principal Terms of the BKV Subsidiary  
Loan Agreement, the HC Subsidiary  
Loan Agreement and the MAV Subsidiary  
Loan Agreement

#### 1. BKV

(a) The principal amount (the BKV Subsidiary Loan) to be repaid by the Borrower to BKV under the BKV Subsidiary Loan Agreement shall be the equivalent in the currency of the Borrower (determined as of the respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the

currency or currencies so withdrawn or paid out on account of the cost of goods and services for Part B of the Project to be financed out of the proceeds of the Loan allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.

(b) The BKV Subsidiary Loan shall be: (i) made for a period of fifteen years, inclusive of a grace period of five years; and (ii) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate of not less than the higher of the following two rates: (A) the refinancing rate charged from time to time by the National Bank of the Hungary on loans with maturities longer than one year made to financial institutions pursuant to the Monetary and Credit Policy Guidelines adopted each year by Resolution of the Borrower's Council of Ministers; or (B) (1) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, and (2) an additional charge equal to 20% of the amounts to be paid pursuant to subparagraph (b) (ii) (B) (1) hereof.

## 2. HC

(a) The principal amount (the HC Subsidiary Loan) to be relented by the Borrower to HC under the HC Subsidiary Loan Agreement shall be the equivalent in the currency of the Borrower (determined as of the respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services for Part C of the Project to be financed out of the proceeds of the Loan allocated from time to time to Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.

(b) The HC Subsidiary Loan shall be: (i) made for a period of fifteen years, inclusive of a grace period of five years; and (ii) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate of not less than the higher of the following two rates: (A) the refinancing rate charged from time to time by the National Bank of Hungary on loans with maturities longer than one year made to financial institutions pursuant to the Monetary and Credit Policy Guidelines adopted each year by Resolution of the Borrower's Council of Ministers; or (B) (1) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, and (2) an additional charge equal to 20% of the amounts to be paid pursuant to subparagraph (b) (ii) (B) (1) hereof.

## 3. MAV

(a) The principal amount (the MAV Subsidiary Loan) to be relented by the Borrower to MAV under the MAV Subsidiary Loan Agreement shall be the equivalent in the currency of the Borrower (determined as of the respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services for Part D of the Project to be financed out of the proceeds of the Loan allocated from time to time to Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.

(b) The MAV Subsidiary Loan shall be: (i) made for a period of fifteen years, inclusive of a grace period of five years; and (ii) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate of not less than the higher of the following two rates: (A) the refinancing rate charged from time to time by the National Bank of Hungary on loans with maturities longer than one year made to financial institutions pursuant to the Monetary and Credit Policy Guidelines adopted each year by Resolution of the Borrower's Council of Ministers; or (B) (1) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, and (2) an additional charge equal to 20% of the amounts to be paid

pursuant to subparagraph (b) (ii) (B) (1) hereof.

#### SCHEDULE 6

### Procurement and Consultants' Services

#### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

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

2. The works included in Part A (1) of the Project shall be procured under one contract and the bidders for such works shall be prequalified as described in paragraph 2.10 of the Guidelines.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the territory of the Borrower 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

1. Goods and technical licenses which the Bank agrees (a) are of proprietary nature, (b) the timely supply thereof is critical for efficient Project execution, or (c) need to be compatible with other installed equipment, may be procured through direct negotiations with the proprietors thereof, on terms and conditions acceptable to the Bank.

2. Goods estimated to cost less than the equivalent of \$150,000 per contract, up to an aggregate amount not to exceed the equivalent of \$15,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines in accordance with procedures acceptable to the Bank.

3. Works under Part A (6) of the Project estimated to cost less than the equivalent of \$3,000,000 per contract, may be procured on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

##### Part D: Review by the Bank of Procurement Decisions

###### 1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each: (i) contract for goods estimated to cost the equivalent of \$1,000,000 or more, (ii) contract for works under Part A (1) of the Project, and (iii) of the first three contracts for works under Part A (6) of the Project, 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, said 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 4 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

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

## Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to: (A) consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who 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.

