

CONFORMED COPY

LOAN NUMBER 3383 POL

(Heat Supply Restructuring and Conservation (Credit) Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

WIELKOPOLSKI BANK KREDYTOWY W POZNANIU

Dated September 16, 1991

LOAN NUMBER 3383 POL

LOAN AGREEMENT

AGREEMENT, dated September 16, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and WIELKOPOLSKI BANK KREDYTOWY W POZNANIU (the Borrower).

WHEREAS (A) Republic of Poland (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 Project;

(B) the Borrower intends to contract from the European Bank for Reconstruction and Development (EBRD) a loan (the EBRD Loan) in an amount of fifty million dollars (\$50,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the EBRD Loan Agreement) to be entered into between EBRD and the Borrower;

(C) 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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and

conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Statutes" means the statutes of the Borrower dated April 11, 1989, as amended to the date of this Agreement;

(b) "Statement of Policy" means the Borrower's statement of lending and investment policy as adopted and approved by the Board of Directors of the Borrower on April 15, 1989, as amended to the date of this Agreement;

(c) "Beneficiary" means an enterprise to which the Borrower proposes to make or has made a Sub-loan;

(d) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan;

(e) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to a Beneficiary for a Sub-project; and

(f) "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, various currencies that shall have an aggregate value equivalent to the amount of twenty million dollars (\$20,000,000), 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 Investment Projects 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 on its books 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 June 30, 1997, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate 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 and the Guarantor 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 and the Guarantor 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

semi-annually on June 1 and December 1 in each year.

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

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

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, shall carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with its Statutes and its Statement of Policy.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree: (i) Sub-loans will be made in accordance with the terms and conditions set forth or referred to in Schedule 6 to this Agreement; and (ii) (A) the amount of any Sub-loan or the aggregate amount of all Sub-loans made to any one Beneficiary shall not exceed the equivalent of \$10,000,000, and (B) the aggregate amount of all Sub-loans made for less than the equivalent of \$100,000 each, shall not exceed the equivalent of \$5,000,000.

(b) The Borrower shall: (i) exercise its rights in relation to each Sub-project in such manner as to protect the interests of the Bank and the Borrower, comply with its obligations under this Agreement, and achieve the purposes of the Project; and (ii) coordinate and monitor the overall execution of the Project and the carrying out by Beneficiaries of their respective Sub-projects in accordance with policies and procedures satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account and for the separate account referred to in Section 4.03 of this Agreement for each fiscal year audited in accordance with sound 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 seven months after the end of each such year: (A) certified copies of said financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain, in accordance with Section 4.01 of this Agreement, 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 (a) 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 4.03. Except as the Bank shall otherwise agree, the Borrower shall:

(a) open by the date on which it shall receive the first repayment of principal under any of the Sub-loans, and, thereafter, maintain a separate account on its books in accordance with the provisions of Section 4.01 of this Agreement; and

(b) upon receipt of each such repayment, credit the same to the said separate account. All amounts so credited shall be utilized by the Borrower, to the extent they are not yet required to meet the Borrower's payment obligations to the Bank under this Agreement, exclusively to finance specific development projects similar to the Sub-projects on terms and conditions similar to those applicable to the Sub-loans.

Section 4.04. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies used in its operations.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) the Statutes or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to perform any of its obligations under this Agreement.

- (b) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of the EBRD Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the EBRD Loan Agreement, or
 - (B) the EBRD Loan shall have become due and

payable prior to the agreed maturity thereof.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under the EBRD Loan Agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

- (a) the event specified in Section 5.01 of this Agreement shall occur; and
- (b) the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that all conditions precedent to the effectiveness of the EBRD Loan Agreement have been fulfilled, other than those selected to the effectiveness of this Agreement.

Section 6.02. 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:

INTBAFRAD
Washington, D.C.

Telex:

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

For the Borrower:

Wielkopolski Bank
Kredytowy w Poznaniu
Plac Wolnosci 15
60-967 Poznan
Poland

Telex:

414502

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ K. Dervis
Acting Regional Vice President
Europe, Middle East and North Africa

WIELKOPOLSKI BANK KREDYTOWY W POZNANIU

By /s/ F. Pospiech
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The proceeds of the Loan may be withdrawn from the Loan Account to finance 100% of foreign expenditures and 100% of local expenditures (ex-factory cost) of goods and 100% for consultants' services.

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in financing such productive facilities and resources in Guarantor's territory as will contribute to the further development of the district heating subsector.

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

Part A:

The financing, through loans to district heating enterprises, of specific development projects to rehabilitate and modernize existing district heat facilities, including, to: (a) extend network life and minimize network leakage; (b) ensure better load dispatch and temperature reduction; (c) improve load management and reduce energy losses; (d) facilitate accurate metering of both energy purchased from combined heat and power plants and energy sold to residential and industrial customers; and (e) reduce air pollution through small coal boilers replacement by, and conversion to, gas-fired boilers.

Part B:

The financing, through loans to enterprises, other than district heating enterprises, involved in the production and sale of heat and steam, of specific development projects to rehabilitate and expand their heat and steam production facilities and to reduce energy losses and air pollution.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On June 1 and December 1 beginning December 1, 1996 through December 1, 2007	835,000
On June 1, 2008	795,000

* 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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4
Procurement

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 the territory of the Guarantor 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 which the Bank agrees are supplied through a limited number of sources, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from a list, acceptable to the Bank, of qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Items or groups of items estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$2,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least two suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Contracts for items which the Bank agrees are of a proprietary nature may be awarded after direct negotiations with suppliers, 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 estimated to cost the equivalent of \$500,000 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, 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 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 on the basis of statements of expenditure.

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required for Sub-projects and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of paragraph B.2 of Schedule 6 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(b) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

SCHEDULE 6

Terms and Conditions of Sub-loans

The principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of Section 3.02 (a) of this Agreement.

A. Terms

1. The principal amount of each Sub-loan shall be the equivalent in dollars (determined as of the date or 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 financed out of the proceeds of the Loan for the Sub-project.

2. Sub-loans shall each: (a) be made for a period not exceeding ten years, inclusive of a grace period not exceeding three years; and (b) be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at the rate of interest applicable to loans made by the Borrower pursuant to the Statement of Policy.

3. Sub-loans shall be made on terms whereby the Borrower shall obtain, by written contract or other appropriate legal means, rights adequate to protect its interest and those of the Bank, including the right to:

(a) require the Beneficiary to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary shall take out and maintain with responsible insurers such insurance, against such risk and in such amounts, as shall be consistent with sound business practices; and (ii) without limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) require that the Beneficiary shall: (i) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition; (ii) have its records and accounts and financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and (iii) furnish to the Borrower, for forwarding to the Bank as the Bank shall so request, as soon as available, but in any case not later than seven months after the end of each such year, certified copies of said financial statements for such year as so audited and the report of such audit, of such scope

and in such detail as the Bank shall have reasonably requested;

(f) obtain all such information as the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-loan upon failure by such Beneficiary to perform its obligations under its contract with the Borrower.

B. Conditions

1. Sub-loans shall be made:

(a) to Beneficiaries which each shall have established, to the satisfaction of the Borrower on the basis of guidelines acceptable to the Bank, that: (i) it is creditworthy, and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of the Sub-project; (ii) its projected internal cash generation or equity increases and the provision of other financing obtained by it shall be sufficient to enable it to carry out the core master plan referred to in subparagraph (iv) of this paragraph and to meet the estimated expenditures required for carrying out of Sub-project; (iii) it is in a position, and has undertaken, to achieve and maintain a debt service coverage ratio of at least 1.3 times and, as of fiscal year 1992, a net internal cash generation ratio of at least 30%; and (iv) in respect of each Beneficiary under Part A of the Project, it has developed and undertaken to carry out a core master plan, satisfactory to the Bank, for the optimization of existing facilities; and

(b) for Sub-projects which are each determined by the Borrower, on the basis of guidelines acceptable to the Bank: (i) to be a suitable part of the core master plan referred to in subparagraph (a) (ii) of this paragraph; (ii) to be technically feasible with an appropriate implementation time-schedule; and (iii) to have an economic rate of return of at least 15%.

2. No expenditures for goods or services required for an Sub-project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 5 (a) of this Part in respect of such Sub-loan; or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 5 (b) of this Part in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$1,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan which have been or are being used for financing goods and services directly and materially related to such Sub-project.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as

the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

