

CONFORMED COPY

LOAN NUMBER 4569 CHA

Loan Agreement

(Hebei Urban Environment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated November 1, 2000

LOAN NUMBER 4569 CHA

LOAN AGREEMENT

AGREEMENT, dated November 1, 2000, between PEOPLE'S REPUBLIC OF CHINA (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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Hebei (as defined in Section 1.02(h)) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Hebei, as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and Hebei (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through October 6, 1999, (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Affected Persons" means persons who, on account of any change in land or water use due to works carried out or to be carried out under the Project, would incur the involuntary loss, temporarily or permanently, of shelter, productive assets or access to productive assets, or of income or means of livelihood and, as a consequence, have their living standards or production levels adversely affected; and "Affected Person" means any of the Affected Persons.

(b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) "Environmental Assessment" means the Hebei Urban Environment Project Environmental Assessment of Parts A and B of the Project dated March 2000, which includes environmental mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures.

(d) "Handan" means Handan Municipality in Hebei, and any successor thereto.

(e) "Handan RAP" means the 'Resettlement Action Plan for Urban Environment Project of Handan City' dated October 1999, which is Handan's land acquisition, removal and resettlement plan for Parts A(2) and B(2) of the Project, and includes the procedures governing land acquisition, resettlement and compensation, as well as the reporting and monitoring arrangements to ensure compliance with the said plan, as the same may be revised from time to time in agreement with the Bank.

(f) "Handan Water Supply Company" means Handan Water Supply Company, a state-owned enterprise established in 1958 and operating pursuant to its Administration Regulations and Institutional Arrangement of October 1998 and to Business License No. 1304001400188, dated December, 1996, issued by Handan Industrial and Commercial Administration Bureau, and any successor thereto.

(g) "Handan Sewage Treatment Co., Ltd." means Handan Sewage Treatment Co., Ltd., a state-owned limited liability company established and operating pursuant to its Charter of March 23, 1999, and to Business License No. 1304001000125, dated March 26, 1999, issued by Handan Industrial and Commercial Administration Bureau, and any successor thereto.

(h) "Hebei" means Hebei Province, an administrative sub-division of the Borrower, and any successor thereto.

(i) "Industrial Pollution Control Action Plan" means the action plan dated April 26, 2000, setting out a program of actions to be carried out by Hebei and the Project Municipalities over a ten-year period to control and reduce water pollution by industries.

(j) "PMO" means the project management office maintained pursuant to the provisions of paragraph 1(a) of Schedule 2 to the Project Agreement.

(k) "Project Agreement" means the agreement between the Bank and Hebei 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.

(l) "Project Municipalities" means, collectively, Handan, Shijiazhuang and Tangshan, and "Project Municipality" means, individually, any of the Project Municipalities.

(m) "Resettlement Action Plans" means collectively, the Handan RAP, Shijiazhuang RAP and Tangshan RAP.

(n) "Respective RAP" means:

(i) for Handan Water Supply Company and Handan Sewage Treatment Co., Ltd.: Handan RAP;

(ii) for Shijiazhuang Wastewater Treatment Co., Ltd.: Shijiazhuang RAP; and

(iii) for Tangshan Water Supply Company and for Tangshan Wastewater Treatment Co., Ltd.: Tangshan RAP.

(o) "Shijiazhuang" means Shijiazhuang Municipality in Hebei, and any successor thereto.

(p) "Shijiazhuang RAP" means the "Resettlement Action Plan for Sewage Treatment of Shijiazhuang City" dated October 1999, which is Shijiazhuang's land acquisition, removal and resettlement plan for Part B(3) of the Project, and includes the procedures governing land acquisition, resettlement and compensation, as well as the reporting and monitoring arrangements to ensure compliance with the said plan, as the same may be revised from time to time in agreement with the Bank.

(q) "Shijiazhuang Wastewater Treatment Co., Ltd." means Shijiazhuang Wastewater Treatment Co., Ltd., a state-owned limited liability company established and operating pursuant to its Charter of July 8, 1999, and to Business License No. 1001000125, dated October 9, 1999, issued by Shijiazhuang Industrial and Commercial Administration Bureau, and any successor thereto.

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

(s) "Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between each of the Project Municipalities and its Utility Company pursuant to paragraph 6 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes schedules to said agreements; and "Subsidiary Loan Agreement" means, individually, any of the Subsidiary Loan Agreements.

(t) "Tangshan" means Tangshan Municipality in Hebei, and any successor thereto.

(u) "Tangshan RAP" means the "Resettlement Action Plan for Urban Environment Project of Tangshan City" dated October 1999, which is Tangshan's land acquisition, removal and resettlement plan for Parts A(1) and B(1) of the Project, and includes the procedures governing land acquisition, resettlement and compensation, as well as the reporting and monitoring arrangements to ensure compliance with the said plan, as the same may be revised from time to time in agreement with the Bank.

(v) "Tangshan Water Supply Company" means Tangshan Water Supply Company, a state-owned enterprise established and operating pursuant to its Administration Regulations and Institutional Arrangement dated May 30, 1999, and to Business License No. 1302001410764, dated April 4, 1997, issued by Tangshan Industrial and Commercial Administration Bureau, and any successor thereto.

(w) "Tangshan Wastewater Treatment Co., Ltd." means Tangshan Wastewater Treatment Co., Ltd., a state-owned limited liability company established and operating pursuant to its Charter of May 28, 1999, and to Business License No. 1302001000678, dated December 29, 1997, issued by Tangshan Industrial and Commercial Administration Bureau, and any successor thereto.

(x) "Utility Company" means in respect of:

(i) Handan: the Handan Water Supply Company and Handan Sewage Treatment Co., Ltd.;

(ii) Shijiazhuang: the Shijiazhuang Wastewater Treatment Co., Ltd.; and

(iii) Tangshan: the Tangshan Water Supply Company and Tangshan Wastewater Treatment Co., Ltd.

collectively, referred to as "Utility Companies."

(y) "Utility Company's Respective Part of the Project" means:

(i) for Handan Water Supply Company: Parts A(2), C, D and E of the Project;

(ii) for Handan Sewage Treatment Co., Ltd.: Parts B(2), C, D and E of the Project;

(iii) for Shijiazhuang Wastewater Treatment Co., Ltd.: Parts B(3), C, D and E of the Project;

(iv) for Tangshan Water Supply Company: Parts A(1), C, D and E of the Project; and

(v) for Tangshan Wastewater Treatment Co., Ltd.: Parts B(1), C, D and E of the Project.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred fifty million Dollars (\$150,000,000).

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 may, for the purposes of the Project open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007, 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollar for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof

allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Hebei to perform in accordance with the provisions of the Project Agreement all the obligations of Hebei therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Hebei to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Hebei on the following principal terms:

(i) the principal amount so made available shall be the equivalent in terms of dollars (determined as of the date, or respective dates of withdrawal from the Loan Account or payment out of the Special Account, as the case may be) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan, and shall be recovered by the Borrower in dollars;

(ii) the Borrower shall recover: (A) the principal amount so made available; and (B) an amount equal to one percent (1%) of the Loan over a period of twenty (20) years, inclusive of a grace period of five (5) years; and

(iii) the Borrower shall charge Hebei (A) interest on the

principal amount so made available and withdrawn and remaining unpaid from time to time, at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.06 of this Agreement; and (B) a commitment charge on the principal amount so made available and not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

Section 3.02. 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 1 to the Project Agreement.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Hebei pursuant to Section 2.03 of the Project Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) 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 sound accounting practices, 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 or payment out of the Special 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.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section, including 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, including 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; 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.

#### ARTICLE V

##### Remedies of the Bank

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

(a) Hebei shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Hebei will be able to perform its obligations under the Project Agreement.

(c) Any of the parties to any of the Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

#### 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, the Subsidiary Loan Agreements have been executed on behalf of the Project Municipalities and their respective Utility Company.

Section 6.02. The following events are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) The Project Agreement has been duly authorized or ratified by Hebei and is legally binding upon Hebei in accordance with its terms.

(b) Each of the Subsidiary Loan Agreements has been duly authorized or ratified by each of the parties thereto and is legally binding on said parties 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:

Ministry of Finance  
Sanlihe, Beijing 100820  
People's Republic of China

Cable address:	Telex:	Facsimile:
FINANMIN Beijing	22486 MFPRC CN	68551125

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202)

477-6391

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Guangyao  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

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 Financed	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be
(1) Works	62,300,000	46%
(2) Goods foreign	66,900,000	100% of expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures items procured
(3) Consultants' services and training	11,800,000	100%
(4) Fee under of the Agreement	1,500,000	Amount due Section 2.04 Loan
(5) Unallocated	7,500,000	
TOTAL	150,000,000	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be "foreign expenditures; and

(b) the term "local expenditures" means any expenditures that are not foreign expenditures.

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

(a) payments made for expenditures under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate

amount not exceeding \$5,000,000 for expenditures made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after March 15, 2000; and

(b) payments made for expenditures by each Utility Company under Category 1 until agreements, acceptable to the Bank, have been entered into in accordance with Section II of Schedule 1 to the Project Agreement, with consultancy firms for the provision of: (i) institutional and financial technical assistance services under Part C of the Project; and (ii) design review and construction management and quality control technical assistance services under Parts A and B of the Project.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) works under contracts costing less than \$5,000,000 equivalent each;

(b) goods under contracts costing less than \$250,000 equivalent each;

(c) consultants' services under contracts with firms or individuals, each costing less than \$100,000 equivalent or \$50,000 equivalent respectively; and

(d) training, regardless of the cost thereof, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist Hebei in its long-term urban environmental services improvement program to: (a) recover from environmental degradation of its water and land resources; (b) provide an adequate supply of safe water to its growing urban population and industries; and (c) strengthen the institutional and financial capacities of utilities.

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. Water Supply Improvement

Improving the quality of water supplied through:

##### (1) Tangshan Water Supply

(a) Construction of a raw water intake pumping station with a capacity of 160,000 cubic meter per day (m<sup>3</sup>/day) and a water treatment plant with a capacity 150,000 m<sup>3</sup>/day in Tangshan.

(b) Laying of about 19 kilometers (km) of raw water transmission pipelines and about 10 km of distribution mains in Tangshan.

##### (2) Handan Water Supply

(a) Construction of raw water intakes with a total capacity 120,000 m<sup>3</sup>/day and about 57 km of raw water transmission mains in Handan.

(b) Expansion of the Tiexi Water Treatment Plant to increase its capacity by 100,000 m<sup>3</sup>day in Handan.

(c) Rehabilitation of about 54 km of the water distribution network in Handan.

Part B. Wastewater Management

Improving wastewater management through:

(1) Tangshan Wastewater

Construction of a wastewater treatment plant with a capacity of 120,000 m3/day and a secondary wastewater collection network of about 20 km in Tangshan.

(2) Handan Wastewater

(a) Construction of a wastewater treatment plant with a capacity 100,000 m3/day and a secondary wastewater collection network of about 40 km in Handan.

(b) Rehabilitation and expansion of the North Lift Sewage Pumping Station to increase its capacity to 60,000 m3/day.

(c) Expansion of the existing East Wastewater Treatment Plant sludge treatment facility to increase its capacity by 33,000 m3/day in Handan.

(3) Shijiazhuang Wastewater

Construction of a wastewater treatment plant (with sludge treatment with energy recovery facilities) with a capacity of 500,000 m3/day, and construction of about 40 km of trunk mains and a secondary wastewater collection network in Shijiazhuang.

Part C. Institutional Strengthening

Strengthening the capacity of Utility Companies in: (i) project, financial and institutional management and utility operation; and (ii) construction management and supervision, through the provision of equipment, consultants' services and training.

Part D. Industrial Water Pollution Control

Improving control of industrial water pollution through a program of actions designed to reduce pollution loads from selected industries.

Part E. Resettlement

Resettlement and rehabilitation of Affected Persons in connection with the carrying out of Parts A and B of the Project.

\* \* \*

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
February 15, 2006	2,990,000
August 15, 2006	3,085,000
February 15, 2007	3,190,000
August 15, 2007	3,295,000
February 15, 2008	3,405,000
August 15, 2008	3,520,000

February 15, 2009	3,635,000
August 15, 2009	3,760,000
February 15, 2010	3,885,000
August 15, 2010	4,010,000
February 15, 2011	4,145,000
August 15, 2011	4,285,000
February 15, 2012	4,425,000
August 15, 2012	4,575,000
February 15, 2013	4,725,000
August 15, 2013	4,885,000
February 15, 2014	5,045,000
August 15, 2014	5,215,000
February 15, 2015	5,390,000
August 15, 2015	5,570,000
February 15, 2016	5,755,000
August 15, 2016	5,945,000
February 15, 2017	6,145,000
August 15, 2017	6,345,000
February 15, 2018	6,560,000
August 15, 2018	6,775,000
February 15, 2019	7,005,000
August 15, 2019	7,235,000
February 15, 2020	7,475,000
August 15, 2020	7,725,000

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\* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

#### SCHEDULE 4

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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 \$10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$6,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$75,000,000.

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

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

shall be made as follows:

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

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

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

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

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

