

CONFORMED COPY

LOAN NUMBER 3830 KO

Loan Agreement

(Waste Disposal Project)

between

REPUBLIC OF KOREA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated March 3, 1995

LOAN NUMBER 3830 KO

LOAN AGREEMENT

AGREEMENT, dated March 3, 1995, between REPUBLIC OF KOREA (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 A of the Project will be carried out by the City of Pusan (Pusan City) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Pusan City a portion of the proceeds of the Loan as provided in this Agreement; and

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

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 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) "MOE" means the Borrower's Ministry of Environment;

(b) "EMC" means the Environmental Management Corporation, a State-owned corporation established and operating pursuant to the Governing Laws;

(c) "Governing Laws" means the Borrower's laws governing the establishment and operation of EMC, including Law No. 3057 dated May 21, 1983, Law No. 3944 dated November 28, 1987, Law No. 4183 dated December 20, 1989, Law No. 4257 dated August 1, 1990, Law No. 4264 dated March 8, 1991, Law No. 4539 dated December 8, 1992 and Law No. 4657 dated December 27, 1993, as amended to the date of this Agreement;

(d) "Project Agreement" means the agreement between the Bank and the City of Pusan (Pusan City) 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;

(e) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Pusan City pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and the term "Subsidiary Loans" means the loan provided under the Subsidiary Loan Agreement;

(f) "Kunsan Plant Contract" means the agreement to be entered into between the Borrower, through MOE, and the EMC pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Kunsan Plant Contract;

(g) "Pusan Special Account" means the account referred to in Section 2.02 (c) of this Agreement; and

(h) "EMC 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 seventy five million dollars (\$75,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower may, for the purposes of Part B of the Project, open and maintain in dollars a special deposit account (the EMC Special Account) in the Korea Exchange Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the EMC Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) The Borrower may, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account (the Pusan Special Account) in the Korea Exchange Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Pusan Special Account shall be made in accordance with the provisions of Schedule 3 to the Project Agreement.

Section 2.03. The Closing Date shall be June 30, 2000 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 ( $\frac{3}{4}$  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 ( $\frac{1}{2}$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down

after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

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

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

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

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

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

### ARTICLE III

#### Execution of the Project

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

- (i) shall carry out Part B of the Project, through MOE, with due diligence and efficiency and in conformity with appropriate administrative, environmental and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause Pusan City to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Pusan City to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend to Pusan City the equivalent in Dollars (determined on the date or respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods for Part A of the Project to be financed out of the proceeds of the Loan allocated from time to time to Category 1 of Schedule 1 to this Agreement, under a subsidiary loan agreement to be entered into between the Borrower and Pusan City, under terms and conditions which shall have been approved by the Bank which shall include the following principal terms and conditions whereby Pusan City shall:

(i) pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time, at a rate per annum equal to the rate applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement;

(ii) pay a commitment charge on the principal amount not withdrawn from time to time equal to the charge applicable from time to time to the Loan pursuant to Section 2.04 of this Agreement; and

(iii) repay the principal amount of the Subsidiary Loan within 15 years, including five years of grace.

(d) The Borrower shall, through MOE, entrust EMC with the construction and operation of the facilities provided under Part B of the Project under a contract to be entered into between the Borrower, through MOE, and EMC under terms and conditions which shall have been approved by the Bank.

(e) The Borrower shall exercise its rights under the Subsidiary Loan Agreement and the Kunsan Plant Contract in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or the Kunsan Plant Contract or any of their provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods required for Part B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by Pusan City pursuant to Section 2.03 of the Project Agreement.

#### ARTICLE IV

##### Financial 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 B of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the EMC 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 or payment out of the Pusan Special Account and EMC 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 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. (a) Except as the Bank shall otherwise agree, the Borrower shall produce in the Kunsan Plant, for each of its fiscal years after its fiscal year ending on December 31, 1995, total revenues equivalent to not less than the sum of the Kunsan Plant (i) total operating expenses; and (ii) total indirect operating expenses.

(b) On September 30 of each year, commencing on September 30, 1996 and thereafter, the Borrower shall, on the basis of forecasts prepared by EMC and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that Kunsan Plant would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall, or shall cause EMC to, promptly take all necessary measures (including, without limitation, adjustments of the

structure or levels of the Kunsan Plant rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "total revenues" means the sum of total operating revenues and net non-operating income.
- (ii) The term "total operating revenues" means revenues from all sources related to operations.
- (iii) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 4.75% per annum of the average current gross value of Kunsan Plant's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
- (v) The average current gross value of Kunsan Plant fixed assets in operation shall be calculated as one half of the sum of the gross value of Kunsan Plant's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
- (vi) the term "total indirect operating expenses" means all expenses debited to EMC Headquarters in such amounts and in such terms as shall be specified from time to time, but not to exceed 25% of total revenues.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Republic of Korea, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

#### 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) Pusan City 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 Pusan City will be able to perform its obligations under the Project Agreement.
- (c) The Governing Laws shall have been amended, suspended,

abrogated, repealed or waived so as to affect materially and adversely the ability of EMC to perform any of its obligations under the Kunsan Plant Contract.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Pusan City or EMC or for the suspension of their operations.

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

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraph (c) and (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following is 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, namely, that the Project Agreement has been duly authorized or ratified by Pusan City, and is legally binding upon Pusan City in accordance with its terms.

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

##### Representatives 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  
Kwachon  
Korea

Cable address: Telex:

MOF Kwanchon, Korea K23243

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:

INTBAFRAD 248423 (RCA)  
Washington, D.C. 82987 (FTCC)



64145 (WUI) or  
197688 (TRT)

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

REPUBLIC OF KOREA

By /s/ Shin Myoung Ho  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell Cheetham  
Regional Vice President  
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment and material under Part A of the Project	60,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(2) Equipment and material under Part B of the Project	15,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
TOTAL	<u>75,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in

the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

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

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

(a) prior to the date of this Agreement;

(b) under Category 1 of paragraph 1 of this Schedule until the Subsidiary Loan Agreement has been executed on behalf of the Borrower and Pusan City, satisfactory to the Bank, and the Bank has been furnished with: (i) a conformed copy of the Subsidiary Loan Agreement; and (ii) with an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank showing that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Pusan City and is legally binding upon the Borrower and Pusan City in accordance with its terms; and

(c) under Category 2 of paragraph 1 of this Schedule until the Kunsan Plant Contract has been executed on behalf of the Borrower and EMC, satisfactory to the Bank, and the Bank has been furnished with: (i) a conformed copy of the Kunsan Plant Contract; and (ii) with an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank showing that the Kunsan Plant Contract has been duly authorized or ratified by the Borrower and EMC and is legally binding upon the Borrower and EMC in accordance with its terms.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, not exceeding \$1,000,000 equivalent, 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 the Borrower to improve environmental conditions in Pusan City and Chunbuk province by: (a) reducing health hazards of surface and ground water contamination; (b) addressing environmental, institutional and technological aspects regarding wastewater and specified waste disposal; and (c) promoting the reuse of treated effluent on a major scale.

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: Expansion of the wastewater treatment plan at Janglim in Pusan City, including construction of: (i) primary and secondary treatment units; (ii) tertiary units to treat the effluent for reuse as industrial water; and (iv) about 4.5 km of interceptor sewers and two booster pumping units.

PART B: Expansion of the specified waste treatment plant at Kunsan in Chunbuk province, including: (i) supply and installation of a specified waste incineration unit; and (ii) provision of technical assistance therefor.

\* \* \*

The Project is expected to be completed by December 31,

1999.

SCHEDULE 3  
Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 15 and December 15 beginning June 15, 2000 through June 15, 2009	\$3,750,000
and on December 15, 2009	\$3,750,000

---

\* 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

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	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years	0.73

before maturity	
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

#### SCHEDULE 4

##### Procurement of Goods

###### Part A: International Competitive Bidding

1. 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 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part C.2 (a) of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

(c) Bidders for the specified waste incineration unit under Part B of the Project shall be prequalified as provided in paragraph 2.10 of the Guidelines.

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

1. In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Republic of Korea 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: Review by the Bank of Procurement Decisions

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

With respect to the prequalification of bidders as provided in Part A.1(c) 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 contract for goods estimated to cost the equivalent of \$1,000,000 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 EMC 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 EMC 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 EMC 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 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

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

#### SCHEDULE 5

##### Implementation Program

1. In order to assist the Borrower in the supervision of the construction of the facilities provided under Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank.

2. By June 30, 1997, the Borrower shall, through MOE, adopt and thereafter implement an environmental monitoring program, satisfactory to the Bank, to collect and evaluate data on Kunsan plant performance and environmental impact. On the basis of such data collected and evaluated, the Borrower shall, by no later than June 30, 1998 or such later date as the Bank shall otherwise agree, through MOE, prepare and furnish to the Bank, for its review and comments, a plan to mitigate the potential adverse impacts arising from the operation of the Kunsan plant, and, thereafter, taking into account the Bank's comments, implement such plan.

3. Without limitation to the provisions of Section 9.06 of the General Conditions, the Borrower shall, through MOE:

(a) on March 31 and September 30 of each year, commencing on March 31, 1996, and thereafter, furnish to the Bank semi-annual progress reports on Part B of the Project, satisfactory to the Bank, including revised cost estimates and implementation schedules; and

(b) on September 30 of each year, commencing on September 30 1996, and thereafter until the completion of the Project, furnish to the Bank annual updated financial projections of the Kunsan Plant, satisfactory to the Bank.

#### SCHEDULE 6

##### EMC Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Category (2) 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 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 \$1,000,000 to be withdrawn from the Loan Account and deposited in the EMC 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 \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$1,000,000.

2. Payments out of the EMC 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 EMC Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the EMC 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 EMC Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the EMC Special Account, the Borrower shall furnish to the Bank requests for deposits into the EMC 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 EMC 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 EMC 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 EMC 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 EMC 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 EMC 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 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 EMC 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 EMC 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 EMC 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 EMC 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 EMC 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 EMC 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.



