

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4704 BUL

Loan Agreement

(District Heating Project)

between

TOPLOFIKACIA SOFIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 18, 2003

LOAN NUMBER 4704 BUL

LOAN AGREEMENT

AGREEMENT, dated June 18, 2003 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TOPLOFIKACIA SOFIA (SOFIA-DHC) (the Borrower).

WHEREAS (A) the REPUBLIC of BULGARIA (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan) and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) by two Decisions of the Municipality of Sofia dated September 28, 2001 and April 15, 2002, the Municipality of Sofia agreed to introduce the participation of a private operator for the provision of heating services in the District of Sofia;

(D) by an agreement between the Borrower and the European Bank for Reconstruction and Development (the EBRD), the EBRD has agreed to make a loan available to the Borrower in the framework of the Sofia District Heating Rehabilitation Project (the EBRD Project) in an amount of €30,000,000 to assist in financing the Project on the terms and conditions set forth in the EBRD Loan Agreement (the EBRD Loan Agreement);

(E) by a letter dated February 13, 2003 from the United States Agency for International Development (USAID) to the Municipality of Sofia, USAID agreed to commit technical assistance for the private sector participation referred to in Part A.3. (b) of the Project on the terms and conditions set forth in the above mentioned letter from USAID (the USAID Letter);

(F) by an agreement dated August 14, 2002, between the Kozloduy International Decommissioning Support Fund (KIDS) and the Borrower, KIDS agreed to provide an amount of up to €30,000,000 to assist in financing the Project on the terms and conditions set forth in the KIDS Grant Agreement (the KIDS Grant Agreement);

(G) by an agreement dated October 16, 1991, between the European Commission and the EBRD, the European Commission agreed to provide technical assistance for the activities related to the implementation of the Project on the terms and conditions set forth in the EU PHARE/TACIS Program (the EU PHARE/TACIS Program Grant Agreement); and

(H) by an agreement of even date herewith between TOPOLOFIKACIA PERNIK (PERNIK-DHC) and the Bank, the Bank agreed to make available to PERNIK-DHC a loan in an amount of \$7,000,000 to assist in financing Part B of the Project on the terms and conditions set forth in the District Heating Project – PERNIK-DHC Loan Agreement (the PERNIK-DHC Loan Agreement);

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; 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) “Bulgargas” means a joint stock company registered under Bulgarian law in Sofia City Court pursuant to the Sofia Court Decision for Registration No. 1371 dated March 15, 1990;

(b) “BGN” means leva, the Guarantor’s local currency;

(c) “Environmental Management Plan” means the plan, satisfactory to the Bank, prepared and adopted by the Borrower, describing the environmental mitigation, monitoring, and operating measures under the Project;

(d) “FRP” means the Borrower’s Financial Recovery Plan, satisfactory to the Bank, prepared by the Borrower and endorsed by the Guarantor, dated May 13, 2003, and referred to in paragraph 3 of Schedule 5 to this Agreement; designed to enable the Borrower to achieve financial self sufficiency by December 2006, and outlining the measures to be undertaken by the Borrower and the Guarantor for such purposes, as the same may be modified from time to time with the approval of the Guarantor and the Bank;

(e) “Financial Management Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) “Municipality” means the Municipality of Sofia as defined in the Territorial Division of the Municipality of Sofia and Large Towns Act published in the Guarantor’s State Gazette No. 66 dated July 25 1995, as amended;

(g) “PIU” means the Borrower’s Project implementation unit within the Borrower;

(h) “PERNIK-DHC” means Toplofikacia Pernik EAD or Pernik District Heating JSC a uni-personally State owned joint stock company registered under Bulgarian Law under Pernik District Court Case No. 155/1996 on February 24, 1996;

(i) “Project Implementation Plan” means the plan referred to in paragraph 4 of Schedule 5 to this Agreement, satisfactory to the Bank;

(j) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(k) “SOFIA-DHC” means Toplofikacia Sofia EAD or Sofia District Heating JSC, a joint stock company registered under Bulgarian law under company file No. 1084/1993 under the Sofia City Court Inventory List on March 1, 1993, and jointly owned by the Municipality and the Guarantor.

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 twenty six million Euro (€26,000,000).

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, works and services required for Part A of the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of Part A of the Project open and maintain in Euro a special deposit account in the Bulgaria National Bank 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 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008 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 front-end 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 such 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 Euro 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 and the Guarantor 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 and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor 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 June 15 and December 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) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate financial, accounting, engineering, environmental, and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(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 A of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Part A 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. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the sustainability of Part A of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Project and the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited; and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may 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 separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal

controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 (a) of Schedule 5 to this Agreement, the Borrower shall, through the PIU, prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Part A of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Part A of the Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of Part A of the Project; and
- (iii) sets forth the status of procurement under Part A of the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under Part A of the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative, financial, accounting and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers and shall not act in a way which would adversely affect its financial position;

(b) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices; and

(c) not modify the structure and/or ownership of the company in a manner that would adversely affect its ability to implement Part A of the Project.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make the Decisions of the Municipality dated September 28, 2001 and April 15, 2002 objectively unlikely to be carried out.

- (b) (i) Subject to paragraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the EBRD loan entered into by the Borrower, and/or to benefit from the USAID assistance, and/or the KIDS Grant, and/or the EU PHARE/TACIS Program for financing Part A of the Project shall have been suspended, canceled, or terminated in whole or in part, pursuant to the terms of the EBRD Loan Agreement, USAID Letter, KIDS Grant Agreement, and the EU PHARE/TACIS Program providing therefore.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (a) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreements; and/or (b) adequate funds for Part A of 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 6.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) of Section 6.01 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.

Section 6.03. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b)(i) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (b)(ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

(a) the auditors referred to in Section 4.01 of this Agreement have been employed in a manner satisfactory to the Bank; and

(b) the Borrower has provided evidence satisfactory to the Bank that the Guarantor has purchased BGN 45 million worth of shares of the Borrower in accordance with the Decision of the Council of the Municipality of Sofia dated November 28, 2002 and the Ordinance No. 307 of the Guarantor's Council of Ministers dated December 20, 2002.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Guarantee Agreement has been duly authorized or ratified, and is legally binding upon the Guarantor in accordance with its terms.

Section 7.03. The date of ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Executive Director of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Toplofikacia Sofia
23 Yastrebetz St
1680 Sofia
Republic of Bulgaria

Facsimile:

359 2 958 1264

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 Sofia, Republic of Bulgaria, as of the day and year first above written.

TOPLOFIKACIA SOFIA

By /s/ Valentin Dimitrov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
South Central Europe Country Unit
Europe and Central Asia

SCHEDULE 1

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	9,200,000	100% of foreign expenditures and 80% of local expenditures
(2) Goods	13,320,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services	720,000	85% of local expenditures and 95% of foreign expenditures
(4) Front-end fee	260,000	Amount due under Section 2.04 of this Agreement
(5) Unallocated	<u>2,500,000</u>	
TOTAL	<u>26,000,000</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 Guarantor for goods, works 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, works or services supplied from the territory of the Guarantor; provided, however, that if the currency of the Guarantor is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding: (a) □2,000,000 in respect of Category (1) as set forth in the table in paragraph 1 of this Schedule; (b) □400,000 in respect of Category (2) as set forth in the table in paragraph 1 of this Schedule; and (c) □200,000 in respect of Category (3), as set forth in the table in paragraph 1 of this Schedule, may be made on account of payments made for expenditures before that date but after June 1, 2002.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than □200,000 equivalent each; (b) works under contracts costing less than □100,000 equivalent each; (c) services provided by consulting firms under contracts costing less than □100,000 equivalent each; and (d) services provided by individual consultants under contracts costing less than □50,000 equivalent each, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve the quality of district heating services in the Districts of Sofia and Pernik; (b) improve the financial viability of the Borrower; and (c) increase environmental friendly operations in the district heating sector in the Districts of Sofia and Pernik, through energy conservation and pollution reduction mechanisms.

The Project consists of the following parts, subject to such modifications thereof as may be agreed upon from time to time for Part A of the Project between the Borrower and the Bank and for Part B of the Project between Pernik-DHC and the Bank, to achieve such objectives:

Part A

1. Network Rehabilitation

- (a) Replacement and/or installation of transmission pipelines.
- (b) Replacement of thermal insulation over ground pipelines.
- (c) Replacement of valves and compensators in the transmission and distribution network.
- (d) Installation of variable speed pumping system at the main heat sources.

2. Sub-Station Rehabilitation

Replacement of sub-stations in the system.

3. Project Management and Technical Assistance

- (a) Provision of technical assistance for the purposes of management, implementation and supervision of Part A of the Project, including audit services, and the carrying out of a public awareness campaign for energy conservation for Part A of the Project.

(b) Provision of technical assistance to introduce private sector participation in the production, transmission and distribution of heat.

Part B

1. Network Rehabilitation

(a) Replacement of transmission pipelines.

(b) Replacement of valves and compensators in the transmission and distribution network and the network monitoring system.

(c) Installation of variable speed pumping system at the main heat source.

2. Sub-Station Rehabilitation

Replacement of sub-stations in the district heating system.

3. Rehabilitation of Generation Plant

(a) Replacement of the outdated electrostatic precipitator for a boiler in the lignite fired combined heat and power plant.

(b) Rehabilitation of the chemical water treatment plant.

(c) Rehabilitation of automation and control equipment for the coal conveyor system.

4. Project Management and Technical Assistance

Provision of technical assistance for purposes of management, implementation and supervision of Part B of the Project, including audit services, and the carrying out of a public awareness campaign for energy conservation for Part B of the Project.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Euro</u>)*
On each June 15 and December 15	
beginning December 15, 2008	1,085,000
through December 15, 2019	1,085,000
On June 15, 2020	1,045,000

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997, and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost $\square 200,000$ equivalent or more each and contracts for works shall be grouped in bid packages estimated to cost $\square 1,000,000$ equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than □200,000 equivalent per contract and works estimated to cost less than □2,000,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, and the following additional provisions:

1. a point system evaluation will not be used;
2. domestic preference will not be applied;
3. international bidders will not be excluded from bidding;
4. the draft NCB bidding documents will be prepared and submitted to the Bank for review and no-objection before any NCB tender is issued;
5. no bids will be rejected at the bid opening. All bids submitted on or before the deadline for submission of bids will be opened and read out at public bid opening;
6. local bidders shall demonstrate availability of obtaining securities and reasonable access to credit;
7. bid evaluation criteria shall not be pre-disclosed to bidders; and
8. technical specifications must be clearly written.

2. International Shopping

Goods estimated to cost less than □100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with

such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods estimated to cost $\square 200,000$ or more, each contract for works estimated to cost $\square 2,000,000$ or more and the first contract procured under Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract to be procured in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than □200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services estimated to cost less than □200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than □100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be

furnished to the Bank, for its review and approval, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every twelve (12) months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of □100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of □50,000 or more, the report on the comparison of the qualifications and experience of candidates, and the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Part A of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2005, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part A of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by October 31, 2005, or such later date as the Bank shall request, the mid-term report referred to in paragraph (b) of this Section, and, thereafter, take all measures to ensure the efficient completion of Part A of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

2. The Borrower shall maintain during the execution of Part A of the Project, the PIU with staff and resources as shall be required to perform its duties in respect of overall management and implementation of Part A of the Project, including reporting on the implementation of Part A of the Project to the Borrower's Executive Director, in a manner satisfactory to the Bank.

3. The Borrower shall: (a) at all times implement the FRP in a manner satisfactory to the Bank under Part A of the Project and carry out Part A of the Project in accordance with the FRP which shall include, *inter alia*, provisions whereby: (i) the levels of the tariffs proposed by the Borrower for approval by the Regulator shall progressively be sufficient to achieve full cost recovery and financial self-sufficiency; (ii) operations will be run efficiently; and (iii) certain financial and operational targets leading to the progressive phase-out of subsidies will be achieved; and

(b) discuss with the Bank on a semi-annual basis its financial performance, including a financial forecast for the following two years and ensure that sufficient resources have been allocated in the Borrower's annual budget to cover the counterpart funding requirements under Part A of the Project for each year in question, to determine

progress under the FRP, by April 30 and October 30 each year throughout the implementation of Part A of the Project.

4. The Borrower shall carry out Part A of the Project in accordance with the Project Implementation Plan setting forth the annual work program for the implementation of the Project and the key instruments for the execution, coordination of the Project, including procurement and financial management procedures, and the Environmental Management Plan.

5. The Borrower shall, provide: (a) evidence satisfactory to the Bank that the Decision of the Municipality dated December 18, 2002 on the introduction of a private operator in the production, transmission and distribution of heat has been implemented; and

(b) by not later than December 30, 2003, or such later date as agreed by the Borrower and the Bank, evidence satisfactory to the Bank that the bidding process for the selection of a private sector operator has been completed in a transparent and competitive manner in accordance with the Decision of the Municipality referred to in paragraph (a) above, unless otherwise agreed with the Bank.

6. The Borrower shall enter into an agreement with a private entity to produce, purchase and sell heat and electricity only after: (i) the Bank has received all related documents; (ii) the Borrower has provided evidence satisfactory to the Bank that the terms and conditions in the pertinent agreement between the Borrower and the private entity are economic and competitive; and (iii) the Borrower has agreed with the Bank on the planned use of its assets.

7. The Borrower shall implement the Annex dated November 25, 2002 to the Agreement dated December 29, 1998 between the Borrower and Bulgargas (Contract No. 1) in accordance with its terms and, through the PIU, shall report to the Bank on a quarterly basis starting as of the first quarter following effectiveness of this Agreement the status of the payments realized in accordance with such Annex.

8. The Borrower shall carry out by not later than May 31, 2004 and May 31, 2005, respectively, a public awareness campaign and survey to help determine the level of consumer satisfaction on the quality of district heating services.

SCHEDULE 6

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, works, and services required for the Part A of 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 the amount of □1,520,000 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 the amount of □760,000 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 □6,000,000.
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 paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

- (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 Category, 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.