

CONFIRMED COPY

LOAN NUMBER 3711 CHA

Project Agreement

(Shanghai Environment Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

MUNICIPALITY OF SHANGHAI

Dated June 2, 1994

LOAN NUMBER 3711 CHA

PROJECT AGREEMENT

AGREEMENT, dated June 2, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and MUNICIPALITY OF SHANGHAI (Shanghai).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred sixty million dollars (\$160,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Shanghai agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Shanghai, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and the General Conditions (as so defined) have the respective

meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) Shanghai declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall: (i) carry out Parts D, E and F of the Project, and (ii) cause the Waterworks Company to carry out Part A thereof, the Sewerage Company to carry out Part B thereof, and the Wastewater Treatment Plant to carry out Part C thereof; all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility and environmental standards and practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Shanghai shall otherwise agree, Shanghai shall carry out the Project, or cause the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 this Agreement.

Section 2.03. Shanghai shall carry out 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 the Project Agreement.

Section 2.04. (a) Shanghai shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) Shanghai shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by Shanghai of its obligations under this Agreement.

## ARTICLE III

### Financial Covenants

Section 3.01. (a) The Bank and Shanghai shall, from time to time, at the request of either party, exchange views with regard to Shanghai's policies in respect of charges for water supply, sewerage and waste disposal services and its plans in respect of the overall development of the water supply, sewerage and waste disposal service sub-sectors of its economy.

(b) Shanghai shall, as long as it exercises control over the setting of charges for the services provided by the Implementing Agencies, establish structures and levels of charges for said services which would enable the Implementing Agencies, under conditions of efficient operation at reasonable levels of capacity utilization, to meet their respective financial obligations set forth in Parts B, C and D of the Annex to Schedule 2 to this Agreement.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section, Shanghai shall take all measures necessary to enable: (i) the Wastewater Treatment Plant to begin, not later than January 1, 1995, to impose and collect charges in respect of its collection, treatment and disposal of wastewater in the Town of Songjiang within Shanghai, and retain as its revenues all charges so imposed; and (ii) the Waterworks Company to begin, not later than January 1, 1995, to collect and retain as its revenues all surcharges imposed on users of potable water in Shanghai for exceeding water use quotas pursuant to the Water Use Regulations.

Section 3.02. (a) Shanghai 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 the Project of the departments or agencies of Shanghai responsible for carrying out the Project or any part thereof.

(b) Shanghai shall:

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

#### ARTICLE IV

##### Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Shanghai thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Shanghai thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

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

For Shanghai:

Shanghai Municipal Finance Bureau  
60 Jiu Jiang Road  
Shanghai,  
People's Republic of China

Telex:

33685 SMFB CN

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Shanghai, or by Shanghai on behalf of the Borrower under the Loan Agreement, may be taken or executed by the Vice Mayor responsible for urban construction or such other person or persons as said Vice Mayor shall designate in writing, and Shanghai shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam S. Kaji

Regional Vice President  
East Asia and Pacific

MUNICIPALITY OF SHANGHAI

By /s/ Li Daoyu

Authorized Representative

#### SCHEDULE 1

##### Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, Shanghai and the Implementing Agencies 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, Shanghai and the Implementing Agencies shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. Bidders for goods (other than steel plates and chemical equipment for the water treatment facilities included in Part A(1) of the Project) estimated to cost the equivalent of \$1,000,000 or more per contract and works estimated to cost the equivalent of \$10,000,000 or more per contract shall be prequalified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for: (a) goods shall be grouped into bid packages estimated to cost the equivalent of \$200,000 or more; and (b) works shall be grouped into bid packages estimated to cost the equivalent of \$10,000,000 or more.

#### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in China 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, China may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

#### Part D: Other Procurement Procedures

##### Local Competitive Bidding

1. Civil works estimated to cost the equivalent of \$10,000,000 or less per contract, and goods estimated to cost the equivalent of \$200,000 or less per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

##### Shopping

2. Goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount not to exceed \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

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

##### 1. Review of prequalification:

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

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

(a) With respect to each contract for works estimated to cost the equivalent of \$10,000,000 or more, and 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 Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph,

the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Loan Agreement.

(c) The provisions of the preceding sub-paragraph (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.

## Section II: Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981. For complex, time-based assignments, Shanghai and the Implementing Agencies shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, Shanghai and the Implementing Agencies shall use other standard forms agreed with the Bank.

### SCHEDULE 2

#### Implementation Program

For purposes of Section 2.01 (b) of this Agreement, the Implementation Program shall consist of the following.

#### A. Project Management

Shanghai shall continue to maintain a project office, with staff and other resources and terms of reference satisfactory to the Bank, to be responsible for the overall coordination and supervision of Project execution, the supervision of the procurement of goods and services thereunder, and the preparation and furnishing to the Bank of reports and other information thereon.

#### B. On-lending of Loan Proceeds

1. For the purpose of carrying out Part A of the Project, Shanghai shall relend to the Waterworks Company certain proceeds of the Loan under a subsidiary loan agreement to be entered into between Shanghai and the Waterworks Company, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in the Annex to this Schedule.

2. For the purpose of carrying out Part B of the Project, Shanghai shall relend to the Sewerage Company certain proceeds of the Loan under a subsidiary loan agreement to be entered into between Shanghai and the Sewerage Company, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in the Annex to this Schedule.

3. For the purpose of carrying out Part C of the Project, Shanghai shall relend to the Wastewater Treatment Plant certain proceeds of the Loan under a subsidiary loan agreement to be entered into between Shanghai and the Wastewater Treatment Plant, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in the Annex to this Schedule.

#### 4. Shanghai shall:

(a) (i) cause each Implementing Agency to perform, in accordance with the

provisions of its respective Subsidiary Loan Agreement all of the obligations of said Implementing Agency therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Implementing Agency to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower, the Bank and Shanghai and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements or any provision thereof.

C. Part B of the Project

In furtherance of the objectives of Part B of the Project to improve the quality of water at the intake constructed under Part A thereof, Shanghai shall carry out a time-bound action plan, acceptable to the Bank, for the conversion of the production processes of, and the construction of pre-treatment facilities for, selected industrial facilities which discharge wastewater into the Upper Huangpu River, designed to ensure the compliance by said facilities with the Wastewater Discharge Standards.

D. Part D of the Project

Shanghai shall carry out Part D of the Project through the Environmental Monitoring Center within Shanghai's Bureau of Environmental Protection, in accordance with a time-bound action plan acceptable to the Bank.

E. Part E of the Project

Shanghai shall carry out Part E of the Project through its Environmental Sanitation Administration Bureau, in accordance with a time-bound action plan acceptable to the Bank.

F. Part F of the Project

Shanghai shall carry out Part F of the Project in accordance with a time-bound action plan acceptable to the Bank.

G. Resettlement

Shanghai shall:

(a) take and shall cause the Implementing Agencies to take, all measures necessary to ensure that all persons displaced as a result of the Project shall be resettled in accordance with a resettlement plan acceptable to the Bank designed to improve the living standards of such persons; and

(b) (i) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Bank, the carrying out of the resettlement plan referred to in paragraph (a) hereof; (ii) prepare and furnish to the Bank not later than January 1 in each year during which resettlement activities are carried out, a report, of such scope and in such detail as the Bank shall reasonably request, on the monitoring and evaluation activities carried out pursuant to sub-paragraph (i) hereof, together with any revisions proposed to be made to said resettlement plan; and (iii) promptly introduce any such revisions to said resettlement plan as shall have been approved by the Bank.

ANNEX  
to  
SCHEDULE 2

Principal Terms and Conditions  
of the  
Subsidiary Loan Agreements

The principal terms and conditions set forth or referred to in this Schedule shall apply for the purposes of Parts B.1, B.2 and B.3 of Schedule 2 to this Agreement.

A. General

1. The principal amount of each Subsidiary Loan shall be the equivalent in Dollars (determined as of the date or respective dates of repayment) of the value of the currency or currencies withdrawn from the Loan Account or paid out of the Special Account on account of the goods and services required: in the case of the Waterworks Company, for Part A of the Project and to be financed out of the proceeds of the Loan; in the case of the Sewerage Company, for Part B of the Project and to be financed out of the proceeds of the Loan; and in the case of the Wastewater Treatment Plant, for Part C of the Project and to be financed out of the proceeds of the Loan.

2. Interest shall be charged on the principal amount of each Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement.

3. A commitment charge shall be charged on the principal amount of each Subsidiary Loan not withdrawn from time to time at a rate equal to the charge applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

4. The principal amount of each Subsidiary Loan shall be repaid over a period not exceeding 15 years, inclusive of a grace period not exceeding 5 years.

5. The Subsidiary Loan Agreements shall be made on conditions whereby:

(a) each Implementing Agency shall undertake to:

(i) carry out its respective Part of the Project with due diligence and efficiency and in accordance with appropriate technical, financial, engineering and public utility practices and appropriate environmental standards acceptable to the Bank, and provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(ii) procure the goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods and services exclusively in the carrying out of its respective Part of the Project;

(iii) enable the Bank and Shanghai to inspect such goods and the sites and works included in its respective Part of the Project, the operation thereof, and any relevant records and documents;

(iv) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Implementing Agency to replace or repair such goods; and

(v) (A) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition;

(B) have its financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank and Shanghai;

(C) furnish to the Bank and Shanghai, as soon as available, but



in any case not later than six months after the end of each such year, (1) certified copies of said financial statements and accounts for such year as so audited, and (2) the report of such audit by said auditors of such scope and in such detail as the Bank and/or Shanghai shall have reasonably requested; and

(D) prepare and furnish to the Bank and Shanghai, all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank and/or Shanghai shall reasonably request; and

(b) Shanghai shall have the right to suspend or terminate the right of each Implementing Agency to the use of the proceeds of its respective Subsidiary Loan upon failure by said Implementing Agency to perform its obligations under its respective Subsidiary Loan Agreement.

#### B. Waterworks Company Subsidiary Loan Agreement

The Waterworks Company Subsidiary Loan Agreement shall be made on further conditions whereby the Waterworks Company shall undertake to:

1. (a) carry out, with due diligence and efficiency and in accordance with a schedule satisfactory to the Bank, a waterworks investment program, which the Bank agrees is designed to ensure the integrity of the activities carried out under Part A of the Project;

(b) prepare and furnish to the Bank not later than December 31 of each year a report, of such scope and in such detail as the Bank shall reasonably request, on the progress achieved in the carrying out of said investment program, together with any revisions proposed to be introduced into said investment program and the schedule for its implementation; and

(c) thereafter, promptly introduce such revisions into said investment program and schedule as shall have been agreed with the Bank; and

2. (a) produce, for Fiscal Year 1994, total revenues equivalent to not less than its total operating expenses;

(b) earn, for Fiscal Year 1995 and each Fiscal Year thereafter, an annual return of not less than the following percentage of the average current net value of its fixed assets in operation: 2% for Fiscal Year 1995, 3% for Fiscal Year 1996, 4% for Fiscal Year 1997, 5% for Fiscal Year 1998, 6% for Fiscal Year 1999 and 7% for Fiscal Year 2000 and each Fiscal Year thereafter;

(c) (i) review, before September 30 in each Fiscal Year, and on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in paragraphs (a) and (b) hereof in respect of such year and the next following Fiscal Year and furnish to the Bank the results of such review upon its completion; and

(ii) if any such review shows that it would not meet said requirements for the Fiscal Years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its charges) in order to meet such requirements; and

(d) for the purposes of determining the rate of return specified in paragraph (b) hereof, carry out, not later than June 30 of Fiscal Year 1995 and each Fiscal Year thereafter, a pro-forma revaluation of its assets so as to value said assets as at December 31 of the preceding Fiscal Year, in accordance with sound and consistently applied methods of valuation acceptable to the Bank.

#### C. Sewerage Company Subsidiary Loan Agreement

The Sewerage Company Subsidiary Loan Agreement shall be made on further

conditions whereby the Sewerage Company shall undertake:

1. to maintain with the Sewerage Construction Company, arrangements satisfactory to the Bank, whereby the Sewerage Construction Company shall be responsible for the coordination and supervision of the carrying out, on behalf of the Sewerage Company, of Part B(1) of the Project;

2. (a) to produce for each Fiscal Year, total revenues equivalent to not less than the sum of (i) its total operating expenses; and (ii) the amount by which debt service requirements exceeds the provision for depreciation;

(b) (i) to review, before September 30 in each Fiscal Year, and on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in paragraph (a) hereof, in respect of such year and the next following Fiscal Year, and furnish to the Bank the results of such review upon its completion; and (ii) if any such review shows that it would not meet said requirements for the Fiscal Years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements; and

3. not to incur any debt, unless its net revenues for the Fiscal Year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.3 times its estimated maximum debt service requirements for any succeeding Fiscal Year on all its debt, including the debt to be incurred.

#### D. Wastewater Treatment Plant Subsidiary Loan Agreement

The Wastewater Treatment Plant Subsidiary Loan Agreement shall be made on further conditions whereby the Wastewater Treatment Plant shall undertake:

1. (a) to produce for each Fiscal Year after Fiscal Year 1995 total revenues equivalent to not less than the sum of: (i) its total operating expenses; and (ii) the amount by which debt service requirements exceeds the provision for depreciation;

(b) review, before September 30 in each Fiscal Year, on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in paragraph (a) hereof in respect of such year and the next following Fiscal Year and furnish to the Bank the results of such review upon its completion; and

(c) if any such review shows that it would not meet the requirements set forth in paragraph (a) hereof for the Fiscal Years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements; and

2. not to incur any debt, unless its net revenues for the Fiscal Year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.3 times its estimated maximum debt service requirements for any succeeding Fiscal Year on all its debt, including the debt to be incurred.

#### E. Definitions

1. For purposes of Parts B, C and D of this Annex:

(a) The term "total revenues" means the sum of total operating revenues and net non-operating income.

(b) The term "total operating revenues" means revenues from all sources related to operations.

(c) The term "net non-operating income" means the difference between:

(i) revenues from all sources other than those related to operations;  
and

(ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.

(d) 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 3.9% per annum of the average current gross value of the Implementing Agency's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(e) The average current gross value of the Implementing Agency's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Implementing Agency'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.

(f) The annual return shall be calculated by dividing the Implementing Agency's net operating income for the Fiscal Year in question by one half of the sum of the current net value of the Implementing Agency's fixed assets in operation at the beginning and at the end of that Fiscal Year.

(g) The term "net operating income" means total operating revenues less total operating expenses.

(h) The term "current net value of the Implementing Agency's fixed assets in operation" means the gross value of the Implementing Agency's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(i) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(j) The term "debt" means any indebtedness of the Implementing Agency maturing by its terms more than one year after the date on which it is originally incurred.

(k) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(l) The term "net revenues" means the difference between:

(i) the sum of revenues from all sources related to operations adjusted to take account of the Implementing Agency's rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and

(ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

2. Whenever, for the purposes of this Annex, it shall be necessary to value, in terms of the currency of the Borrower, 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.



