

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7684-CN

Project Agreement

(Jiangsu Water and Wastewater Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

JIANGSU PROVINCE

Dated July 22, 2009

PROJECT AGREEMENT

AGREEMENT dated July 22, 2009, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and JIANGSU PROVINCE (“Jiangsu” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of the same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and Jiangsu hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. Jiangsu declares its commitment to the objectives of the Project. To this end, Jiangsu shall: (a) carry out, and cause the Project Participants and Project Companies to carry out, the Project in accordance with the provisions of Article V of the General Conditions; and (b) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Jiangsu shall otherwise agree, Jiangsu shall carry out, and shall cause to be carried out, the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. Jiangsu’s Representative is its Governor or a Vice Governor or such other person or persons as said Governor or a Vice Governor shall designate in writing, and Jiangsu shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

3.02. The Bank's Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. Jiangsu's Address is:

Jiangsu Provincial Project Management Office of World Bank
Loan for Regional Water Supply
Jiangsu Provincial Construction Department
Room 903 Zhongqing Building No.1
No.96 Caochangmen Street,
Nanjing 210036
Jiangsu Province
People's Republic of China

Facsimile:

86-25 86371634

AGREED at Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hsiao-Yun Elaine Sun
Authorized Representative

JIANGSU PROVINCE

By /s/ Zhao Kezhi
Authorized Representative

SCHEDULE

Execution Of The Project

Section I. Implementation Arrangements

A. Project Management

1. Jiangsu shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:
 - (a) The Provincial Leading Group, headed by an Executive Vice Governor of Jiangsu Province, responsible for carrying out the following through the Foreign Loan Management Office: (i) providing support and guidance to the PPMO; (ii) providing overall policy guidance for Project implementation; (iii) coordinating among various Project implementing agencies and resolving jurisdiction issues; and (iv) coordinating the provision of counterpart funds for the Project.
 - (b) The Provincial Project Management Office, established within the Jiangsu Provincial Construction Department, which office is responsible for: (i) liaising with the Bank; (ii) providing overall guidance on Project implementation to the project management offices established by the Project Participants; (iii) reviewing Project budget and final accounts and allocation of Project funds; (iv) monitoring and evaluating Project implementation and coordinating the preparation of Project Reports; (v) directing, coordinating and monitoring procurement under the Project and selecting a qualified ICB bidding agent; and (vi) implementation of Part 3(a) of the Project.
 - (c) The Project Participant Management Office, established by each Project Participant, which office is responsible for the following activities related to Project implementation within its jurisdiction: (i) coordinating and managing implementation by the Respective Project Company of said company's Respective Parts of the Project; (ii) organizing and supervising procurement; (iii) carrying out implementation monitoring and assessment; and (iv) providing coordination among implementing agencies.

B. Anti-Corruption

Jiangsu shall carry out, and cause the Project Participants and Project Companies to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

C. Resettlement and Environment Protection

1. Jiangsu shall:

(a) take, and shall cause the Project Participants and Project Companies to take, all necessary actions to minimize, to the extent possible, any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, in carrying out the Project and the Related Activities; and

(b) for this purpose:

(i) prior to the commencement of any works under the Project and the Related Activities implement, and cause the relevant Project Participants and Project Companies to implement, the applicable RAP in a manner satisfactory to the Bank; and

(ii) whenever implementation of any of the Related Activity or modification/finalization of any Project or Related Activity design or works would give rise to Displaced Persons, provide, and cause the Project Participant concerned and its Respective Project Company to provide (before commencing said Related Activity or said modified design or work), to the Bank for its review, a resettlement action plan prepared in accordance with the principles and procedures set forth in the Resettlement Policy Framework and, thereafter, implement in a manner satisfactory to the Bank such resettlement action plan as shall have been accepted by the Bank.

2. Jiangsu shall:

(a) in carrying out the Project, implement, and shall cause each Project Participant and each Project Company to implement, the applicable EMP in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards; and

- (b) in carrying out the Related Activities, conduct and shall cause Danyang and Taixing Cities and their Respective Project Company to conduct, environmental assessments, in a manner satisfactory to the Bank and designed to ensure that the Related Activities are implemented in accordance with sound environmental practices and standards.
- 3. Jiangsu shall, and shall cause the Project Participants and Project Companies to:
 - (a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the relevant EMP and RAP and the Resettlement Policy Framework and the achievement of the objectives of said EMP, RAP and framework, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank; and
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by February 15 and August 15 of each year, commencing on February 15, 2010, semi-annual reports of the results of the monitoring and evaluation activities with respect to the relevant EMP and RAP and the Resettlement Policy Framework referred to in sub-paragraph (a) above, together with any revisions proposed to be introduced into said plans and framework in order to achieve their respective objectives.
- 4. Jiangsu shall provide, and shall cause the Project Participants and their Respective Project Company to provide, to the Bank for its prior concurrence any proposed modification or waiver of an EMP, a RAP or the Resettlement Policy Framework, and put into effect only such modification or waiver as shall have been agreed by the Bank.

D. Financial Arrangements

- 1. Jiangsu shall allocate to each Project Participant a portion of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:
 - (a) Jiangsu shall make available the principal amount, which has been allocated to each Project Participant, in Dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of the Project (in whole or part) to be implemented within the jurisdiction of the Project Participant.
 - (b) Jiangsu shall recover such principal amount so made available (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a

period of twenty-five (25) years, inclusive of a grace period of eight (8) years.

- (c) Jiangsu shall charge interest on such principal amount, 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 2.04 of the Loan Agreement.

E. Subsidiary Loan Agreements and NUCIC-NMWC Contracts

1. Jiangsu shall cause:

- (a) each Project Participant to relend a portion of the proceeds of the Loan, which was allocated to it pursuant to Section I, paragraph D.1 of this Schedule, to its Respective Project Company (excluding NMWC) for purposes of carrying out said Project Company's Respective Parts of the Project, under a subsidiary loan agreement ("Subsidiary Loan Agreement") to be entered into between the Project Participant and its Respective Project Company (excluding NMWC): (i) on the principal terms set forth in paragraphs 1 through 3 of Annex A to this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 14 of the Annex A to this Schedule.
- (b) Nanjing City, through NUCIC, to enter into a contract with NMWC ("NUCIC-NMWC Implementation Contract") for NMWC to carry out NUCIC's Respective Parts of the Project under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 8 and paragraph 13 of the Annex A to this Schedule.
- (c) Nanjing City, through NUCIC, six (6) months prior to the completion of commissioning of each wastewater system constructed under its Respective Parts of the Project to enter into a contract with NMWC ("NUCIC-NMWC Operation and Maintenance Contract"), acceptable to the Bank, for NMWC to operate and maintain each of said system.

2. Jiangsu shall ensure that:

- (a) each Project Participant:
 - (i) Causes each of its Respective Project Company to: (A) perform, in accordance with the provisions of the Subsidiary Loan Agreement to which said Project Company is a party, all of the obligations of said Project Company therein set forth; (B) take or

cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Company to perform such obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance.

- (ii) Exercises its rights under each Subsidiary Loan Agreement to which said Project Participant is a party in such manner as to protect the interests of the Borrower, the Bank, Jiangsu and said Project Participant, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Loan Agreement to which said Project Participant is a party or any provision thereof.

(b) Nanjing City:

- (i) Causes: (A) NUCIC and NMWC to perform, in accordance with the provisions of the NUCIC-NMWC Implementation Contract and NUCIC-NMWC Operation and Maintenance Contracts, all of their respective obligations therein set forth; (B) NUCIC to take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable NMWC to perform such obligations; and (C) NUCIC not take or permit to be taken any action which would prevent or interfere with such performance.
- (ii) Causes NUCIC to exercise its rights under the NUCIC-NMWC Implementation Contract and NUCIC-NMWC Operation and Maintenance Contracts in such manner as to protect the interests of the Borrower, the Bank, Jiangsu, Nanjing City and NUCIC, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the NUCIC-NMWC Implementation Contract and NUCIC-NMWC Operation and Maintenance Contracts or any provision thereof.

Section II. Project Monitoring, Reporting, and Evaluation

A. Project Reports

- 1. Jiangsu shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Report shall cover the period of one (1) calendar

semester, and shall be furnished to the Bank by February 15 and August 15 each year, starting on February 15, 2010.

B. Financial Management, Financial Reports and Audits

1. Jiangsu shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. Jiangsu shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of Jiangsu. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.

Section IV. Other Undertakings

1. Jiangsu shall:
 - (a) by September 30, 2010, furnish to the Bank a time-bound strategy, prepared in accordance with terms of reference acceptable to the Bank, for the reduction of Non-Revenue Water in Project towns;
 - (b) thereafter, implement, and cause to be implemented, said strategy, taking into account the Bank's comments thereon and reduce the amount of Non-Revenue Water per township to a level determined in the time-bound strategy agreed with the Bank; and
 - (c) implement said strategy: (i) initially, on a pilot basis in three townships; and (ii) by January 1, 2013, in an additional six townships, all selected in agreement with the Bank.

**ANNEX A
to
SCHEDULE**

**Principal Terms and Conditions of the
Subsidiary Loan Agreements**

For the purposes of Section I, paragraph E.1(a) of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds shall be those set forth in paragraphs 1 through 3 of this Annex; and (b) the Subsidiary Loan Agreements shall be entered into on the conditions set forth in paragraphs 4 through 14 of this Annex. For purposes of Section I, paragraph E.1(b) of the Schedule to this Agreement, the NUCIC-NMWC Implementation Contract shall be entered into on the conditions set forth in paragraphs 4 through 8 and paragraph 13 of this Annex.

Terms of Availability

1. The principal amount of each subsidiary loan made by a Project Participant to its Respective Project Company, shall be the amount equivalent in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of its Respective Project Company's Respective Parts of the Project.
2. Each Respective Project Company shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of not more than twenty-five (25) years, inclusive of a grace period of eight (8) years.
3. Each Respective Project Company shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

Conditions

The Subsidiary Loan Agreements shall include the following principal conditions:

4. Each Project Company shall undertake to: (a) carry out its Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank (including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower) and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (b) without limitation on the foregoing, take all measures necessary to ensure that its Respective Parts

of the Project shall be implemented in accordance with the relevant RAP and EMP and the Resettlement Policy Framework.

5. Each Project Company shall undertake to procure the goods, works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of its Respective Parts of the Project.
6. Each Project Company shall undertake to enable the Bank, the Borrower, Jiangsu and Project Participant concerned to inspect such goods and the sites and works included in the Respective Parts of the Project, the operation thereof, and any relevant records and documents.
7. Each Project Company shall undertake: (a) to 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 to replace or repair such goods; and (b) to properly operate and maintain all facilities relevant to its Respective Parts of the Project and, when needed, promptly make repairs and renewals of such facilities.
8. Each Project Company shall undertake:
 - (a) With respect to:
 - (i) NMWC, YHWAC, ZWSC, DWSC, DSWWTP, TWSC and THWC, to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition; and
 - (ii) NUCIC, to maintain records and accounts adequate to reflect the operations, resources and expenditures related to its Respective Parts of the Project.
 - (b) With respect to:
 - (i) NMWC, YHWAC, ZWSC, DWSC, DSWWTP, TWSC and THWC, to 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

- (ii) NUCIC, to have the records and accounts referred to in subparagraph (a)(ii) above audited in accordance with appropriate auditing principles consistently applied and by independent auditors, both acceptable to the Bank.
 - (c) To furnish to the Bank as soon as available but in any case not later than six (6) months after the end of each Fiscal Year: (i) certified copies of said financial statements or records and accounts, as the case may be, for such year as so audited pursuant to sub-paragraph (b) of this paragraph; and (ii) an opinion on such statements by said auditors in such scope and detail as the Bank shall have reasonably requested.
 - (d) To prepare and furnish to the Bank, Jiangsu, and the Project Participant concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Jiangsu, and the Project Participant concerned shall reasonably request.
 - (e)
 - (i) To maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Annex B of the Schedule to this Agreement, the carrying out of its Respective Parts of the Project and the achievement of the objectives thereof; and
 - (ii) to prepare, under terms of reference satisfactory to the Bank, and furnish to Jiangsu for its review, consolidation in the Project Reports and submission to the Bank, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of its Respective Parts of the Project during the period preceding the date of each such report.
9. (a) Except as the Bank shall otherwise agree, each Water Supply Company shall undertake to produce for each of its fiscal years beginning in FY 2012, total revenues equivalent to not less than the sum of its: (i) total operating expenses; (ii) increases in working capital other than cash; (iii) the amount by which debt service requirements exceed the provision for depreciations; and (iv) twenty percent (20%) of its average capital expenditures over a rolling three-year period.
- (b) Before September 15 in each of its fiscal years commencing in 2011, each Water Supply Company shall, on the basis of forecasts prepared by said Water Supply Company and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (a) of

this paragraph 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 said Water Supply Company would not meet the requirements set forth in sub-paragraph (a) of this paragraph for said Water Supply Company's fiscal years covered by such review, said Water Supply Company shall promptly take all necessary measures in order to meet such requirements.
- 10.
 - (a) Except as the Bank shall otherwise agree, each Wastewater Company (excluding NMWC) shall undertake to produce for each of its fiscal years beginning in FY 2013, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciations.
 - (b) Before September 15 in each of its fiscal years commencing in 2012, each said Wastewater Company shall, on the basis of forecasts prepared by said Project Company and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (a) of this paragraph 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 said Wastewater Company would not meet the requirements set forth in sub-paragraph (a) of this paragraph for said Wastewater Company's fiscal years covered by such review, the Wastewater Company shall promptly take all necessary measures in order to meet such requirements.
- 11.
 - (a) Except as the Bank shall otherwise agree:
 - (i) Each Water Supply Company shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Water Supply Company shows that the estimated net revenues of the Project Company for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Project Company in such year on all debt of said Project Company, including the debt to be incurred. With respect to DWSC, the foregoing obligation shall commence only from January 1, 2011.
 - (ii) Each Wastewater Company (excluding NMWC) shall not incur any debt unless a reasonable forecast of the revenues and expenditures of said Wastewater Company shows that the estimated net revenues of the Project Company for each fiscal

year during the term of the debt to be incurred shall be at least 1.1 times the estimated debt service requirements of the Project Company in such year on all debt of said Project Company, including the debt to be incurred.

12. (a) For purposes of paragraph 9 above, the following terms have the following meanings:
- (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 3.3% per annum of the average current gross value of the Water Supply Company’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 the Water Supply Company’s fixed assets in operation shall be calculated as one half of the sum of the gross value of said Water Supply Company’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 “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

- (vii) The term “working capital other than cash” means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
 - (viii) The term “current assets excluding cash” means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
 - (ix) The term “current liabilities” means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, current maturities due on long term debt, taxes and payments in lieu of taxes, and dividends.
- (b) For purposes of paragraph 10 above, the following terms have the following meanings:
- (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 3.3% per annum of the average current gross value of the Wastewater Company’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 the Wastewater Company's fixed assets in operation shall be calculated as one half of the sum of the gross value of said Wastewater Company'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 "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
 - (vii) With respect to NUCIC, all definitions set out in this subparagraph (b) shall be deemed to refer only to the company's wastewater operations.
- (c) For the purposes of paragraph 11 above:
- (i) The term "debt" means any indebtedness of the Project Company maturing by its terms more than one (1) year after the date on which it is originally incurred.
 - (ii) Debt shall be deemed to be incurred: (A) 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 (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) 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.
 - (iv) 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.
 - (v) 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.
 - (vi) The term “reasonable forecast” means a forecast prepared by the Project Company not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Project Company accept as reasonable and as to which the Bank has notified the Project Company of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Company.
 - (vii) With respect to NUCIC, all definitions set out in this subparagraph (c) shall be deemed to refer only to the company’s wastewater operations.
13. Whenever for the purposes of paragraphs 9, 10, 11 and 12 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.
14. Each Project Participant shall have the right to suspend or terminate the right of its Project Company to the use of the proceeds of the loan made available under the Subsidiary Loan Agreement with said Project Company upon failure by such Project Company to perform its obligations under the agreement.

**ANNEX B to SCHEDULE
Indicators**

**Arrangements for results monitoring
Results Framework**

PDO	Project Outcome Indicators	Use of Project Outcome Information
<p>Improve the efficiency and effectiveness of water and wastewater services, and reduce pollution discharges to local rivers in Jiangsu</p>	<ul style="list-style-type: none"> • PO 1.0: Coverage of water supply in project cities/towns • PO 2.0: NRW % average over supply area of City Water Companies • PO 3.0: Total annual COD load reduction from Municipal Wastewater in project catchment area in: (i) Taixing - Huangqiao; (ii) All others 	<p>To track progress, and recommend adjustments to Borrower</p>
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p>01: Increased water supply coverage to new consumers, and improvements in water supply to consumers, both newly connected and in aggregated systems</p>	<ul style="list-style-type: none"> • IO 1.1: Number of project towns with 24 hour supply • IO 1.2: Number of project towns receiving full city water distribution • IO 1.3: Number of project towns with NRW at or below the target determined in the NRW reduction strategy 	<p>Track progress to encourage continuing commitment to town water supply expansion, and NRW reduction</p>
<p>02: Reduced municipal wastewater pollution discharges to local rivers</p>	<ul style="list-style-type: none"> • IO 2.1: Coverage of wastewater service in project cities • IO 2.2: Ratio of municipal generated to treated wastewater 	<p>Through the required periodic tracking of progress, raise with the Provincial Government and PIUs, Bank's concerns if there is non-compliance with agreed indicators</p>
<p>03: Improved financial viability of water supply and wastewater companies</p>	<ul style="list-style-type: none"> • IO 3.1: Proportion of total revenue to total expenditure for wastewater services in project cities • IO 3.2: Ratio of cost recovery from imposed tariff for wastewater in project cities 	<p>Track annual financial statements of utility companies, and recommend to Provincial Government and utility companies the need to implement tariff increases as necessary</p>

Arrangements for results monitoring

Project Outcome Indicators	Baseline 2008	2009	2010	2011	2012	2013	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
PO 1.0: Coverage of water supply in project cities/towns	96%/78%	96%/80%	97%/88%	98%/86%	98%/89%	98%/92%	Annual	Annual reports	PIUs PPMO
PO 2.0: NRW % average over supply area of City Water Companies ¹	27%	26%	25%	24%	23%	22%	Annual	Annual reports	PIUs PPMO
PO 3.0: Total annual COD load reduction from Municipal Wastewater in project catchment area in: (i) Taixing - Huangqiao: (ii) All others:	(i) 0 (ii) 18,302	(i) 0 (ii) 22,529	(i) 0 (ii) 26,756	(i) 0 (ii) 30,982	(i) 1,278 (ii) 35,209	(i) 1,825 (ii) 39,436	Annual	Annual reports	PIUs PPMO
Intermediate Outcome Indicators									
IO 1.1: Number of project towns with 24 hour supply	40	42	44	46	48	50	Annual	Annual reports	PIUs PPMO
IO 1.2: Number of project towns receiving city water supply	14	25	36	46	57	68 ²	Annual	Annual reports	PIUs PPMO

¹ This Project Outcome Indicator is measuring an average of the whole city water company service area, which includes city and towns. The Project target of reducing NRW to or below 40% is only being applied to towns, as the cities within this project already have NRW below 40% and therefore the % for the service area is expected to be lower.

² Within the project timeframe it is expected that full distribution of city water will be achieved to 68 town, the remaining 10 will be by the Bank project however the full distribution of city water will be outside the Bank project timeframe

Project Outcome Indicators	Baseline 2008	2009	2010	2011	2012	2013	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
IO 1.3: Number of project towns with NRW at or below the target determined in the NRW reduction strategy	18	25	31	38	44	51 ³	Annual	Annual reports	PIUs PPMO
IO 2.1: Coverage of wastewater service in project cities	67%	69%	71%	73%	76%	80%	Annual	Annual reports	PIUs PPMO
IO 2.2: Ratio of municipal wastewater generated to treated wastewater in project cities	50%	53%	56%	64%	73%	81%	Annual	Annual reports	PIUs PPMO
IO 3.1: Proportion of total revenue to total expenditure for wastewater services in project cities	0.63	0.59	0.55	0.51	0.47	0.43	Annual	Annual reports	PIUs PPMO
IO 3.2: Ratio of cost recovery from imposed tariff for wastewater in project cities	1.03	1.06	1.08	1.11	1.13	1.16	Annual	Annual reports	PIUs PPMO

³ Within the project, 51 of the 78 towns are being targeted for NRW reduction.

