

CONFORMED COPY

LOAN NUMBER 3074 FIJ

(Third Telecommunications Project)

between

FIJI

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated September 25, 1989

LOAN NUMBER 3074 FIJ

LOAN AGREEMENT

AGREEMENT, dated September 25, 1989, between FIJI (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to contract from the European Investment Bank (EIB) a loan (the EIB loan) in an amount equivalent to ECU 7,000,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between the Borrower and EIB; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02

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

(b) "P & T" means the Department of Posts and Telecommunications of the Ministry of Communications, Works and Transport of the Borrower;

(c) "Company" means a telecommunications company to be established under the Borrower's Companies Act in performance of Section 3.01 (b)(i) of this Agreement;

(d) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated June 27, 1988 and July 6, 1988 between the Borrower and the Bank;

(e) "Onlending and Operating Agreement" means the onlending and operating agreement to be entered into between the Borrower and the Company pursuant to Section 3.01 (b) (ii) of this Agreement;

(f) "Articles" means the articles of incorporation of the Company to be registered at the Borrower's Office of the Registrar of Companies; and

(g) "FY" and "Fiscal Year" mean the Borrower's fiscal year starting January 1 and ending December 31.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of eight million one hundred thousand dollars (\$8,100,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a bank and 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.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1995, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate per annum for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). In each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated

at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph

(a) of this Section.

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

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

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

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

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

(e) Notwithstanding the provisions of paragraph (a) of this Section, the interest rate for the Interest Period commencing in the first Semester of 1989 shall be seven and sixty-five hundredths percent (7.65%).

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall: (i) carry out the Project or cause the Project to be carried out with due diligence and efficiency and in conformity with appropriate telecommunications practices, and shall provide or cause to be provided promptly as needed, the funds, facilities, services and other resources required for the Project; and (ii) without limitation to the above, make part of the proceeds of the Loan available to P & T in accordance with arrangements acceptable to the Bank.

(b) Without limitation on the provision of paragraph (a) above, the Borrower shall: (i) take all necessary measures by November 30, 1989, for the purposes of facilitating the restructuring of its telecommunications sector and the establishment of a new telecommunications company with powers and responsibilities

satisfactory to the Bank; and (ii) relend all or part of the proceeds of the Loan to the Company upon its establishment under an onlending and operating agreement with terms and conditions which shall have been approved by the Bank and which shall include those set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods 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 4 to this Agreement.

Section 3.03. The Borrower shall: (a) complete, by December 31, 1989, field demand surveys for exchange areas to be included in P & T's investment programs in FY 1990 and 1991; and (b) review with the Bank by September 30 of each year P & T's performance targets applicable to the subsequent Fiscal Year together with any necessary corrective measures.

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

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) The Borrower shall cause P & T to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of P & T.

(b) The Borrower shall cause P & T to:

- (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 Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than ten months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested and six months after the end of each such fiscal year, unaudited statements and accounts of like scope and detail; and
- (iii) furnish to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause the P & T to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the

related withdrawals.

Section 4.02. (a) Except as the Bank shall otherwise agree, the Borrower shall cause P & T to take all necessary measures (including adjustments of the structure or levels of tariffs) to produce an annual rate of return of not less than nine percent (9%).

(b) For the purposes of this Section:

- (i) the annual rate of return shall be calculated in respect of each fiscal year by relating net operating income accruing from telecommunications services for that year to the average of the net value of telecommunications fixed assets in operation at the beginning and end of that year;
- (ii) the term "net operating income" means all telecommunications revenues, except dividend and interest income from long-term investments, less all operating expenses for telecommunications services;
- (iii) the term "operating expenses" includes: direct costs of operation, administration, overheads, and adequate maintenance expenses; straight-line depreciation based on the useful life of assets; but does not include interest and other charges on debt; and
- (iv) the term "net value of telecommunications fixed assets in operations" means the gross value of telecommunications fixed assets in operation less the accumulated depreciation, all determined in accordance with methods of valuation and revaluation acceptable to the Borrower and the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree:

- (i) the Borrower shall not permit P & T to incur any debt in respect of its telecommunications operations, unless the net revenue 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 1.5 times the estimated maximum debt service requirements of the P & T for any succeeding Fiscal Year on all debt of P & T, including the debt to be incurred;
- (ii) the Borrower shall cause P & T to maintain a ratio of current assets to current liabilities of not less than 1.2;

(b) For the purposes of paragraph (a) above:

- (i) The term "debt" means any indebtedness of P & T maturing by its terms more than one 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 adjusted to take account of P & T's telecommunication tariffs 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
  - (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 "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (v) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year, but excluding inventories.
- (vi) 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 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (vii) Whenever for the purposes of this paragraph 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.

Section 4.04. The Borrower shall cause P & T:

- (a) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, and telecommunications practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (b) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and telecommunications practices.

#### ARTICLE V

##### Remedies of the Bank

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

- (a) Either party to the Onlending and Operating Agreement shall have failed to perform its obligations under said Agreement;
- (b) Except as the Bank shall otherwise agree, the Borrower or any other authority having jurisdiction shall have been taken any action for the dissolution or disestablishment of P & T (other than its restructuring into the Company in performance of Section 3.01 (b)(i) of this Agreement) or of the Company or for the suspension of operations.
- (c) As a result of events which occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that P & T or the Company will be able to perform its obligations under the Onlending and Operating Agreement;
- (d) The Articles shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Company to perform any of its obligations under the Onlending and Operating Agreement; and
- (e) (i) Subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
  - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for 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 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

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

(b) the events specified in paragraphs (b) and (d) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii) of that Section.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. 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) A restructuring plan of P & T acceptable to the Bank shall have been furnished to the Bank; and

(b) the Borrower shall have made arrangements satisfactory to the Bank with a twinning organization to strengthen its telecommunications sector.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Government Buildings  
Suva  
Fiji

Cable address:

MINFIN  
Suva

Telex:

2121 MINFIN FJ

For the Bank:

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

Cable address:

Telex:

INTBAFRAD  
Washington, D.C.

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

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.

FIJI

By /s/ Josevata Kamikamica

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu

Regional Vice President  
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Cables and materials for telephone distribution network	6,000,000	100% of foreign expenditures
(2) Technical assistance and overseas training	600,000	100% of expenditures for technical assistance and 100% of foreign expenditures for overseas training
(3) Refunding of Project Preparation Advance for consultants' services	500,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(4) Unallocated	1,000,000	
TOTAL	8,100,000	

2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be



made in respect of: (a) payments made for expenditures prior to the date of this Agreement, and (b) expenditures under Category (1) until the Company shall have been established in performance of Section 3.01 (b)(i) of the Agreement.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to improve the availability of and access to modern telecommunications services in Fiji through restructuring of the telecommunications sector and improvement and expansion of telecommunications facilities.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Sector Restructuring

Provision of technical assistance for the purpose of restructuring the Borrower's telecommunications sector including the establishment of the Company.

Part B: Institutional Development

Provision of technical assistance for the purposes of improving P & T's and the Company's managerial capabilities including the twinning arrangements with a developed telecommunications entity and management training.

Part C: Telecommunications Facilities

Improvement and development of the telecommunications facilities and the Company's information system through:

- (i) provision of switching equipment and associated cable distribution network and subscriber terminal equipment to connect about 15,000 new lines;
- (ii) provision of transmission facilities for long-distance services;
- (iii) provision of computer hardware and software facilities to establish computerized technical, financial, administrative and management information;
- (iv) provision of test and other equipment and vehicles; and
- (v) construction of buildings and cable ducts for the telecommunications system.

\* \* \*

The Project is expected to be completed by June 30, 1995.

## SCHEDULE 3

### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 1 and October 1	
beginning October 1, 1994 through October 1, 2005	340,000
On April 1, 2006	280,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

#### Premiums on Prepayment

Pursuant to Section 3.04(b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods

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

Goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

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

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Fiji may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

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

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

(a) With respect to each contract 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, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

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

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ or cause to be employed consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants 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.

### SCHEDULE 5

#### Onlending and Operating Agreement

The Onlending and Operating Agreement shall include the following terms:

1. The Borrower shall relend all or part of the proceeds of the Loan to the Company under the following terms:

- (i) interest: up to 0.5% above the variable rate payable under Section 2.05 of this Agreement;
- (ii) commitment charge: calculated in accordance with Section 2.04 of this Agreement;
- (iii) repayment period: 17 years including five years' grace period; and
- (iv) foreign exchange risk: to be borne by the Company.

2. The Company shall carry out the Project with due diligence and efficiency and in accordance with appropriate administrative, financial, engineering and telecommunications practices, and shall provide, promptly as needed, the funds, facilities and other resources required for the Project.

3. The Company shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) and procure goods and consultants' services only in compliance with Schedule 4 to the Loan Agreement.

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

(b) The Company 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 the Loan, or the performance by the Company of its obligations under this Agreement.

5. The Company shall: (a) by October 31 of each year, review with the Bank annual targets for completing field demand surveys for exchange areas to be included in its investment plan in subsequent Fiscal Year; and (b) by September 30 of each year, the Company's performance targets applicable to subsequent Fiscal Year together with any necessary corrective measures.

6. The Company shall:

(a) carry on their operations and conduct their affairs in accordance with sound administrative, financial and telecommunications practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(b) at all times, operate and maintain their 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 and financial practices.

7. The Company shall comply with the following financial covenants.

(1) (a) Except as the Bank shall otherwise agree:

(i) the Company shall not incur any debt in respect of its telecommunications operations, unless the net revenue 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 1.5 times the estimated maximum debt service requirements of the Company for any succeeding Fiscal Year on all debt of the Company, including the debt to be incurred;

(ii) the Company shall maintain a ratio of current assets to current liabilities of not less than 1.2;

(b) For the purposes of paragraph (a) above:

(i) The term "debt" means any indebtedness of the Company maturing by its terms more than one 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 adjusted to take account of the Company's telecommunications tariffs 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

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

(v) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year, but excluding inventories.

(vi) 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 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(vii) Whenever for the purposes of this paragraph 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.

(2) (a) Except as the Bank shall otherwise agree, the Borrower shall cause the Company to take all necessary measures (including adjustments of the structure or levels of tariffs) to produce an annual rate of return of not less than nine percent (9%).

(b) For the purposes of this Section:

(i) the annual rate of return shall be calculated in respect of each fiscal year by relating net operating income accruing from telecommunications services for that year to the average of the net value of telecommunications fixed assets in operation at the beginning and end of that year;

(ii) the term "net operating income" means all telecommunications revenues, except dividend and interest income from long-term investments, less all operating expenses for telecommunications services;

(iii) the term "operating expenses" includes: direct costs of operation, administration, overheads, and adequate maintenance expenses; straight-line depreciation based on the useful life of assets; but does not include interest and other charges on debt; and

(iv) the term "net value of telecommunications fixed assets in operations" means the gross value of telecommunications fixed assets in operation less the accumulated depreciation, all determined in accordance with methods of valuation and revaluation acceptable to the Bank.

8. (a) The Company shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of the Company.

(b) The Company 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 Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested and four months after the end of each such year, unaudited statements and accounts of like scope and detail; and

(iii) furnish to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Company shall:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account 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.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$400,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the 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 made 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the 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.

