

CONFORMED COPY

LOAN NUMBER 4569 CHA

Project Agreement

(Hebei Urban Environment Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

HEBEI PROVINCE

Dated November 1, 2000

LOAN NUMBER 4569 CHA

PROJECT AGREEMENT

AGREEMENT, dated November 1, 2000, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and Hebei Province (Hebei).

WHEREAS 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 equal to one hundred fifty million Dollars (\$150,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Hebei agrees to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Hebei, 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, the General Conditions (as so defined in the Loan Agreement) and the preamble to this Agreement have

the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Hebei 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) cause Handan to carry out Parts C, D and E of the Project and cause Handan to carry out Parts A(2), C, D and E of the Project through Handan Water Supply Company and Parts B(2), C, D and E of the Project through Handan Sewage Treatment Co., Ltd.;

(ii) cause Shijiazhuang to carry out Parts C, D and E of the Project and cause Shijiazhuang to carry out Parts B(3), C, D and E of the Project through Shijiazhuang Wastewater Treatment Co., Ltd.;

(iii) cause Tangshan to carry out Parts C, D and E the Project and cause Tangshan to carry out Parts A(1), C, D and E of the Project through Tangshan Water Supply Company and Parts B(1), C, D and E of the Project through Tangshan Wastewater Treatment Co., Ltd.; and

(iv) carry out Part D of the Project,

all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility and environmental practices, and Hebei 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 Hebei shall otherwise agree, Hebei 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. (a) Hebei shall carry out the obligations or cause to be carried 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) in respect of this Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Hebei shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Hebei, a plan for the

future operation of the Project; and

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

Section 2.04. (a) Hebei 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) Hebei 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 Hebei of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Hebei 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 Hebei as well as the Project Municipalities responsible for carrying out the Project or any part thereof.

(b) Hebei 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 (6) 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 Hebei thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Hebei 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 facsimile 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 addresses as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

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

For Hebei:

No. 14 Huaan Street
Shijiazhuang,
Hebei Province 050051
People's Republic of China

Facsimile:

86-311-7031129

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of Hebei may be taken or executed by its Governor or Vice-Governor, or by such other person or persons as Hebei shall designate in writing, and Hebei 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 Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

HEBEI PROVINCE

By /s/ Zhu Guangyao

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable: (a) contracts for works shall be grouped in bid packages estimated to cost \$5,000,000 equivalent or more each; and (b) contracts for goods shall be grouped in bid packages estimated to cost \$400,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Administrative Region of the Borrower and works carried out by contractors from either of said regions).

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$8,000,000 equivalent per contract, up to an aggregate amount not to exceed \$85,000,000 equivalent; and (b) goods estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$17,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for: (i) works estimated to cost the equivalent of \$5,000,000 or more; and (ii) goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for tasks that meet the requirements set forth in

paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000 the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 2

Implementation Program

For the purposes of Section 2.01(b) of this Agreement, the Implementation Program shall consist of the provisions set forth or referred to below.

Project Management

1. In order to ensure the proper carrying out of the Project, Hebei shall:

(a) continue to maintain a project management office with functions satisfactory to the Bank, staffed by qualified personnel in adequate numbers, to be responsible for: the overall coordination, management, supervision and quality assurance of Project implementation;

the supervision of the procurement of goods and services thereunder; the preparation and furnishing to the Bank of reports and other information thereon; and annual budget preparation for the Project; and

(b) ensure that each Project Municipality shall continue to maintain a project office with functions satisfactory to the Bank, staffed by qualified personnel in adequate numbers, to be responsible for: the coordination and supervision of the implementation of its and its Utility Company's Respective Part of the Project; the supervision of procurement of goods and services under its and its Utility Company's Respective Part of the Project; and the preparation and furnishing to PMO of reports and other information thereon.

Resettlement Action Plans and Environmental Assessment

2. Hebei shall take, and shall cause the Project Municipalities to take, all measures necessary to ensure that the Project shall be carried out in accordance with the Resettlement Action Plans and the Environmental Assessment.

3. Hebei shall ensure that any proposed revision of the Resettlement Action Plans or the Environmental Assessment shall be furnished to the Bank for prior approval.

Industrial Pollution Control Action Plan

4. Hebei shall:

(a) carry out its part, and shall cause each of the Project Municipalities to carry out its respective part of the Industrial Pollution Control Action Plan, in a manner satisfactory to the Bank; and

(b) ensure that the Industrial Pollution Control Action Plan is not modified or amended without the prior concurrence of the Bank.

Financial Arrangements

5. Hebei shall allocate to each Project Municipality an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:

(a) The principal amount so made available to each Project Municipality: shall be the amount 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 said Project Municipality's Utility Company's Respective Part of the Project.

(b) Hebei shall recover: (i) the principal amount so made available; and (ii) an amount equal to one percent (1%) of said principal amount, over a period of twenty (20) years, inclusive of a grace period of five (5) years.

(c) Hebei shall charge: (i) interest on said 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 2.06 of the Loan Agreement; and (ii) a commitment charge on such principal amount, not withdrawn from time to time at a rate, equal to three fourths of one percent (3/4 of 1%) per annum.

Subsidiary Loan Agreements

6. Hebei shall cause each Project Municipality to relend the portion of the proceeds of the Loan, which was allocated to it pursuant paragraph 5 of this Schedule for the purposes of carrying out its Utility Company's Respective Part of the Project, to its Utility Company under a subsidiary loan agreement to be entered into between said Project Municipality and its Utility Company: (a) on the principal terms set forth in Section I of Schedule 3 to this Agreement; and (b) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Section II of Schedule 3 to this Agreement.

7. (a) Hebei shall ensure that each Project Municipality shall cause its Utility Company to:

(i) perform, in accordance with the provisions of the Subsidiary Loan Agreement to _____ which said Utility Company is a party, all of the obligations of said Utility _____ Company 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 Utility Company to perform such obligations; and

(iii) not take or permit to be taken any action which would prevent or interfere _____ with such performance.

(b) Hebei shall, and shall cause each Project Municipality to, exercise its rights under each Subsidiary Loan Agreement to which it is a party in such manner as to protect the interests of the Borrower, the Bank, Hebei and said Project Municipality 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 Hebei or said Project Municipality is a party or any provision thereof.

Institutional Development

8. Hebei shall cause each Project Municipality, through its respective Utility Company, to carry out Part C of the Project in accordance with a time-bound action plan acceptable to the Bank and said action plan shall not be modified without the agreement of the Bank.

Monitoring and Reporting

9. Hebei shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project, including the Resettlement Action Plans and the Environmental Assessment, as well as the achievement of the objectives thereof;

(b) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank, the following quarterly reports on January 31, April 30, July 31 and October 31 in each year, beginning on October 31, 2000, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 9(a) of this Schedule 2, based on the quarterly progress reports prepared by the municipal project offices referred to in paragraph 1(b) of this Schedule 2, on the physical and financial progress achieved in the carrying out of the Project during the

preceding calendar quarter (the report due on April 30, 2003, to summarize progress achieved during the period, from July 31, 2000 through March 31, 2003) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) after furnishing each report referred to in paragraph 9(b) of this Schedule 2, review said report with the Bank (the report due on April 30, 2003, shall be reviewed with the Bank by June 30, 2003, or such later date as the Bank shall request), and promptly take all measures required to ensure the efficient completion of the Project (including, when applicable, the carrying out of the Resettlement Action Plans and the Environmental Assessment) and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Bank's views on the matter.

SCHEDULE 3

Principal Terms and Conditions of the Subsidiary Loan Agreements

For the purposes of paragraph 6 of Schedule 2 to this Agreement, the terms of availability of the Loan proceeds shall be those set forth in Section I of this Schedule 3 and the Subsidiary Loan Agreements shall be entered into on the conditions set forth in Section II of this Schedule 3.

Section I. Terms of Availability

1. The principal amount of each Loan made by a Project Municipality to its Utility Company, shall be the amount 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 said Utility Company's Respective Part of the Project.
2. Each Project Municipality shall recover: (a) said principal amount; and (b) one percent of said principal amount, over a period of not more than fifteen (15) years, inclusive of a grace period of five (5) years.
3. Each Project Municipality shall charge interest on said principal amount, which is 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 2.06 of the Loan Agreement.
4. Each Project Municipality shall charge a commitment charge on said principal amount, which is not withdrawn from time to time, at a rate not less than three fourths of one percent (3/4 of 1%) per annum.

Section II. Conditions

The Subsidiary Loan Agreements shall include the following principal conditions.

1. Each Utility Company shall undertake to:
 - (a) carry out the Utility Company's Respective Part of the Project with due diligence and efficiency and in accordance with:
 - (i) appropriate technical, financial, engineering and public utility practices; and
 - (ii) appropriate health, safety and environmental standards acceptable to the Bank, 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 Utility Company's Respective Part of the Project shall be implemented in accordance with the Respective RAP and the Environmental Assessment.

2. Each Utility Company shall undertake to 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 Utility Company's Respective Part of the Project.

3. Each Utility Company shall undertake to enable the Bank, Hebei and the Project Municipality concerned to inspect such goods and the sites and works included in its Utility Company's Respective Part of the Project, the operation thereof, and any relevant records and documents.

4. Each Utility Company shall undertake 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 by the Utility Company to replace or repair such goods.

5. Each Utility Company shall undertake to:

(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 the Project Municipality concerned;

(c) furnish to Hebei, the Project Municipality concerned, and to the Bank, as soon as available, but in any case not later than six months after the end of each such year:

(i) certified copies of said financial statements and accounts for such year as so audited; and

(ii) the report of such audit by said auditors in such scope and detail as Hebei, the Bank and/or said Project Municipality shall have reasonably requested; and

(d) prepare and furnish to the Bank, Hebei, and the Project Municipality concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Hebei, and/or said Project Municipality shall reasonably request.

6. Each Utility Company shall undertake, when applying to the relevant authorities for a tariff increase: (a) to include both the domestic consumer and industrial consumer categories in said tariff increase proposal; and (b) to implement such tariff increase as shall have been approved by said authorities. Notwithstanding sub-paragraph (a), a Utility Company may include only the domestic consumer category in its tariff increase application provided that said Utility Company includes the industrial consumer category in its next tariff increase application and vice versa.

7. Each Utility Company shall undertake to continue to maintain a project implementation unit with functions satisfactory to the Bank, staffed by qualified personnel in adequate numbers, to be responsible

for: the coordination and supervision of the implementation of its Utility Company's Respective Part of the Project; the supervision of procurement of goods and services under its Utility Company's Respective Part of the Project; and the preparation and furnishing of reports and other information thereon to the respective Project Municipality's project office.

8. Handan Water Supply Company and Tangshan Water Supply Company shall for each fiscal year as of 2001, undertake:

(a) to produce total revenues, equivalent to not less than the sum of:

(i) its total operating expenses; and

(ii) increases in working capital other than cash, debt service requirements and 20% of the annual average of its capital expenditures incurred, or expected to be incurred, for the current year, the previous fiscal year and the next following fiscal year;

(b) to review, before September 30 in each fiscal year as of fiscal 2001 and on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in subparagraph (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 subparagraph (a) hereof for the fiscal years covered by such review, promptly to take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

9. Handan Sewage Treatment Co., Ltd., Shijiazhuang Wastewater Treatment Co., Ltd., and Tangshan Wastewater Treatment Co., Ltd., shall for each fiscal year as of 2001, undertake:

(a) to produce 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) to review, before September 30 in each fiscal year as of fiscal 2001 and on the basis of forecasts prepared by it and satisfactory to the Bank, whether it would meet the requirements set forth in subparagraph (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 subparagraph (a) hereof for the fiscal years covered by such review, promptly to take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

10. Each Utility Company shall undertake not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred.

11. For purposes of this Schedule:

(a) The term "total revenues" means the terms 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 "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 Utility Company's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(d) The average current gross value of the Utility Company's fixed assets in operation shall be calculated as one half of the sum of the gross value of its 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.

(e) 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.

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

(g) 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.

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

(i) the sum of revenues from all sources related to operations 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.

(i) 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.

(j) The term "reasonable forecast" means a forecast prepared by the Utility Company not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and said Utility Company accept as reasonable and as to which the Bank has notified said

Utility 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 said Utility Company.

(k) 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.

(l) 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.

(m) 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.

(n) The term "capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations.

12. Whenever, for the purposes of this Schedule, 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.

13. Each Project Municipality shall have the right to suspend or terminate the right of its Utility Company to the use of the proceeds of the loan made available under the Subsidiary Loan Agreement with said Utility Company upon failure by such Utility Company to perform its obligations under the agreement.

