

CONFORMED COPY

LOAN NUMBER 3450 KO

(Pusan and Taejon Sewerage Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

PUSAN CITY GOVERNMENT

Dated May 21, 1992

LOAN NUMBER 3450 KO

PUSAN PROJECT AGREEMENT

AGREEMENT, dated May 21, 1992, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PUSAN CITY GOVERNMENT (Pusan).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Korea (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to forty million dollars (\$40,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Pusan agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and Pusan, part of the proceeds of the loan provided for under the Loan Agreement will be relented to Pusan on the terms and conditions set forth in said Pusan Subsidiary Loan Agreement; and

WHEREAS Pusan, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the

obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of the Project

Section 2.01. (a) Pusan declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Pusan shall otherwise agree, Pusan shall carry out Part A of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. Pusan shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Pusan Project Agreement and Part A of the Project.

Section 2.04. Pusan shall duly perform all its obligations under the Pusan Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Pusan shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Pusan Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) Pusan shall, at the request of the Bank, exchange views with the Bank with regard to progress of Part A of the Project, the performance of its obligations under this Agreement and under the Pusan Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

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

ARTICLE III

Financial Covenants

Section 3.01. (a) Pusan 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 Part A of the Project and of the departments or agencies of Pusan responsible for carrying out Part A of the Project or any part thereof.

(b) Pusan shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 3.02. (a) Except as the Bank shall otherwise agree, Pusan shall take all steps necessary to establish, maintain and collect sewerage charges at such levels so as to produce revenues, for each fiscal year commencing in the fiscal year 1993:

- (i) covering, with respect to sewerage activities, operation and maintenance costs, including depreciation, and debt service payments in excess of depreciation;
- (ii) yielding an annual return of not less than 5% of the average current net value of Pusan's fixed sewerage assets in operation; and

(b) For the purposes of this Section:

- (i) The annual return shall be calculated by dividing Pusan's net operating income from sewerage activities for the fiscal year in question by one half of the sum of the current net value of Pusan's fixed sewerage assets in operation at the beginning and at the end of that fiscal year.
- (ii) The term "net operating income" means total operating revenues less total operating expenses.
- (iii) The term "total operating revenues" means revenues from all sources related to operations.
- (iv) The term "total operating expenses" means all expenses related to sewerage 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 2.6% per annum of the average current gross value of Pusan's fixed sewerage 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 Pusan's fixed sewerage assets in operation shall be calculated as one half of the sum of the gross value of Pusan's fixed sewerage 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 "current net value of Pusan's fixed

sewerage assets in operation" means the gross value of Pusan's fixed sewerage assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 3.03. Pusan shall revalue from time to time its fixed sewerage assets on the basis required by the relevant laws of the Borrower.

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 Pusan thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Pusan thereof.

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

ARTICLE V

Miscellaneous Provisions

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

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

For Pusan:

City Government of Pusan
Construction Bureau
Chung-Ku
Pusan
Republic of Korea

Telex:

Public P K53115 ext. 111

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this

Agreement on behalf of Pusan may be taken or executed by the Mayor of Pusan or such other person or persons as the Mayor of Pusan shall designate in writing, and Pusan shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ G. Kaji
Regional Vice President
East Asia and Pacific

PUSAN CITY GOVERNMENT

By /s/ Koo, Bohn Young
Authorized Representative

SCHEDULE

Implementation Program

1. Terms of the Loan to be granted by the Borrower to Pusan under the Pusan Subsidiary Loan Agreement shall be granted on terms identical to those of the Loan, with the addition of a handling charge of 0.05% per annum.
2. Pusan shall complete, by December 31, 1992, the updating of the Pusan Sewerage Master Plan.
3. Pusan shall, by not later than June 30, 1994, furnish to the Bank an environmental monitoring program satisfactory to the Bank, and shall by such date commence to implement such environmental monitoring program in a manner satisfactory to the Bank.
4. Pusan shall, without limitation or restriction to the provisions of Section 9.07 of the General Conditions:
 - (a) by September 30, 1992, and by March 31 and September 30 of each year thereafter, furnish to the Bank a semi-annual report on the progress of Part A of the Project, including revised cost estimates and implementation schedules; and
 - (b) by September 30, 1992, and by September 30 of each year thereafter, furnish to the Bank updated financial projections for its sewerage activities.