

LOAN AGREEMENT  
(Ordinary Operations)

(Civil Aviation Development Investment Program - Project 1)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

ASIAN DEVELOPMENT BANK

DATED 28 JANUARY 2010

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 28 January 2010 between the INDEPENDENT STATE OF PAPUA NEW GUINEA (hereinafter called the "Borrower") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) by a framework financing agreement dated 9 October 2009 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Civil Aviation Development Investment Program;

(B) by a periodic financing request dated 15 October 2009 submitted by the Borrower, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement; and

(C) by an agreement of even date herewith between the Borrower and ADB (hereinafter called the "Special Operations Loan Agreement"), ADB has agreed to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty-one million five hundred twenty-three thousand Special Drawing Rights (SDR 31,523,000) in connection with the Project;

(D) by an agreement of even date herewith between the Borrower and ADB (hereinafter called the "Hard-Term Special Operations Loan Agreement"), ADB has agreed to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to twelve million six hundred nine thousand Special Drawing Rights (SDR 12,609,000) in connection with the Project;

(E) the Project will be carried out by the Civil Aviation Authority (hereinafter called CAA), and for this purpose the Borrower will make available to CAA the proceeds of the Loan provided for herein; and

(F) ADB has agreed to make a loan to the Borrower from ADB's Ordinary Capital resources upon the terms and conditions hereinafter set forth and in the Project Agreement of even date herewith between ADB and CAA;

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital

Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the "Loan Regulations"):

- (a) Section 3.03 is deleted and the following is substituted therefor:

**Commitment Charge; Credit.** (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

- (b) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

- (c) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations and the Special Operations Loan Agreement have the respective meanings therein set forth.

## **ARTICLE II**

### **The Loan**

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of twenty-five million dollars (\$25,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 April and 1 October in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall make the proceeds of the Loan available to CAA upon terms and conditions satisfactory to ADB and shall cause CAA

to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The Goods, Works, consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works, consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to the Special Operations Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2013 or such other date as may from time to time be agreed between the Borrower and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. (a) The Borrower shall cause CAA to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and air transport practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to the Special Operations Loan Agreement.

Section 4.02. The Borrower shall make available to CAA, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. The Borrower shall take all action which shall be necessary on its part to enable CAA to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

## **ARTICLE V**

### **Suspension; Acceleration of Maturity**

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations.

(a) CAA shall have failed to perform any of its obligations under the Project Agreement.

(b) Any of the Special Operations Loan Agreement or Hard-Term Special Operations Loan Agreement shall have become liable for suspension or cancellation or shall have become repayable prior to its agreed maturity date.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: the Special Operations Loan Agreement and Hard-Term Special Operations Loan Agreement shall have been duly executed and delivered on behalf of the Borrower and shall have become fully effective and binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement

Section 6.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

## ARTICLE VII

### Delegation of Authority

Section 7.01. The Borrower hereby designates CAA its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.04 of this Loan Agreement and under Sections 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by CAA pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on CAA under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

## ARTICLE VIII

### Miscellaneous

Section 8.01. The Minister of Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

#### For the Borrower

Secretary  
Department of Treasury  
Vulupindi Haus  
P.O. Box 542  
Waigani, National Capital District  
Papua New Guinea

Facsimile Numbers:

(675) 312-8804  
(675) 312-8808.

For ADB

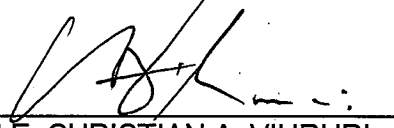
Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Facsimile Numbers:

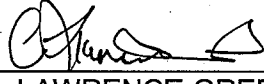
(632) 636-2444  
(632) 636-2446.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

THE INDEPENDENT STATE OF PAPUA  
NEW GUINEA

By   
H.E. CHRISTIAN A. VIHRURI  
Authorized Representative

ASIAN DEVELOPMENT BANK

By   
C. LAWRENCE GREENWOOD, JR.  
Vice-President (Operations 2)

## SCHEDULE 1

### Description of the Project

1. The impact of the Investment Program is expected to be an established sustainable civil aviation network. The outcome of the Program is safer, more secure, and more efficient all-weather access to air transport services through (i) improved airport facilities, (ii) increased safety and security, (iii) better accessibility to markets, natural resource and mineral sites and livelihood opportunities, and (iv) reduced air travel costs. The Project is the first Project of the Investment Program.

2. The Project comprises the following components:

**Component A:** Improving the following airports facilities including pavements and fencing identified as requiring emergency works to be undertaken immediately to comply with International Civil Aviation Organization safety and security standards.

- Port Moresby Domestic apron extension
- Mt Hagen improvements
- Hoskins improvements
- Wewak improvements
- Gurney improvements
- Security fences for Hoskins, Wewak, Kavieng, Gurney and Goroka
- Port Moresby instrument landing system
- Port Moresby 3 fire tenders

**Component B:** Providing consulting services support for

- Detailed engineering design and preparation of bid documents for airports for Component A above;
- Other procurement support for airports under Component A;
- Preparation of investment proposals for subsequent projects under the Investment Program including detailed engineering, bid documents and procurement support;
- Supervision of airport improvement and long-term maintenance contracts for airports covered under the Project; and
- Capacity development and support for policy implementation described in Schedule 1 to FFA.

3. The Project is expected to be completed by 31 December 2012.

## SCHEDULE 2

### Amortization Schedule

#### (Civil Aviation Development Investment Program – Project 1)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Payment Due	Installment Share (Expressed as a %)
1 Apr 2015	0.827816
1 Oct 2015	0.869207
1 Apr 2016	0.912667
1 Oct 2016	0.958301
1 Apr 2017	1.006216
1 Oct 2017	1.056526
1 Apr 2018	1.109353
1 Oct 2018	1.164820
1 Apr 2019	1.223061
1 Oct 2019	1.284214
1 Apr 2020	1.348425
1 Oct 2020	1.415846
1 Apr 2021	1.486639
1 Oct 2021	1.560971
1 Apr 2022	1.639019
1 Oct 2022	1.720970
1 Apr 2023	1.807019
1 Oct 2023	1.897369
1 Apr 2024	1.992238
1 Oct 2024	2.091850
1 Apr 2025	2.196442
1 Oct 2025	2.306264
1 Apr 2026	2.421578
1 Oct 2026	2.542657
1 Apr 2027	2.669789
1 Oct 2027	2.803279
1 Apr 2028	2.943443
1 Oct 2028	3.090615
1 Apr 2029	3.245146

Payment Due	Installment Share (Expressed as a %)
1 Oct 2029	3.407403
1 Apr 2030	3.577773
1 Oct 2030	3.756662
1 Apr 2031	3.944495
1 Oct 2031	4.141720
1 Apr 2032	4.348806
1 Oct 2032	4.566246
1 Apr 2033	4.794558
1 Oct 2033	5.034286
1 Apr 2034	5.286000
1 Oct 2034	5.550311
Total	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating

to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

**SCHEDULE 3****Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest and Commitment Charge

3. The amount allocated to Category 4 is for financing interest and commitment on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest charge.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's Loan Disbursement Handbook.

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement, subject to a maximum amount equivalent to 20 percent of the Loan amount.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Civil Aviation Development Investment Program – Project 1)</b>				
<b>CATEGORY</b>				<b>ADB FINANCING BASIS</b>
<b>Number</b>	<b>Item</b>	<b>Amount Allocated</b>		<b>Percentage of ADB Financing from the Loan Account</b>
		<b>Category</b>	<b>Subcategory</b>	
1	Works	16,600,000		26 percent of total expenditure*
2	Equipment	1,200,000		26 percent of total expenditure*
3	Consulting Services	3,500,000		
3A	Project Implementation Operational and Facility Enhancement Accounting and External Audit		1,900,000	26 percent of total expenditure*
3B	Design and Construction Supervision		1,400,000	26 percent of total expenditure*
3C	Survey and Geotechnical Investigation		200,000	26 percent of total expenditure*
4	Interest and Commitment Charge	2,600,000		100 percent of amount due
5	Unallocated	1,100,000		
	Total	25,000,000		

\* Exclusive of taxes and duties imposed within the territory of the Borrower.