
LOAN NUMBER PNG-2242
(SUPPLEMENTARY TO LOAN NO. 1709-PNG)

LOAN AGREEMENT
(Ordinary Operations)

(Road Maintenance and Upgrading [Sector] Project - Supplementary)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

ASIAN DEVELOPMENT BANK

DATED 13 SEPTEMBER 2006

LAL:PNG 32124

LOAN AGREEMENT

LOAN AGREEMENT dated 13 September 2006 between THE INDEPENDENT STATE OF PAPUA NEW GUINEA (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a loan agreement (Loan No.1709-PNG: Road Maintenance and Upgrading Project) dated 17 November 1999 between the Borrower and ADB, as amended and restated in a loan agreement dated 25 October 2002 (the loan agreement as amended and restated hereinafter called the Initial Loan Agreement), ADB agreed to make a loan in the amount equivalent of sixty three million Dollars (\$63,000,000) to the Borrower from ADB's ordinary capital resources for the purposes of the project described in Schedule 1 to the Initial Loan Agreement;

(B) the Borrower has applied to ADB for two supplementary loans, one from ADB's Special Funds resources and one from ADB's Ordinary Capital Resources, both for the purposes of the project as described in Schedule 1 to the SF Loan Agreement (as hereinafter defined) (hereinafter called the Project);

(C) by an agreement of even date herewith between the Borrower and ADB (hereinafter called the SF Loan Agreement), ADB has agreed to make a supplementary loan to the Borrower from ADB's Special Funds resources for an amount of eighteen million Dollars (\$18,000,000) for the purposes of the Project upon the terms and conditions set forth in the SF Loan Agreement; and

(D) ADB has agreed to make a supplementary loan to the Borrower from ADB's ordinary capital resources for the purposes of the Project upon the terms and conditions hereinafter set forth;

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 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 (said Ordinary Operations Loan Regulations being hereinafter called the Loan Regulations):

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

- (a) "DOW" means the Department of Works of the Borrower, or any successor thereto;
- (b) "Highlands Region" means the area comprising the following Provinces of the Borrower: Eastern Highlands, Enga, Southern Highlands, Simbu and Western Highlands;
- (c) "HRMG" means the Highlands Region Maintenance Group established by the Borrower and referred to in paragraph 2 of Schedule 5 to the SF Loan Agreement, or any successor thereto;
- (d) "IEEs" means the initial environmental examinations approved for each Subproject by the Borrower;
- (e) "Initial Loan Agreement" means the loan agreement between the Borrower and ADB dated 17 November 1999 and, as amended and restated, dated 25 October 2002;
- (f) "Kina" means the lawful currency of the Borrower;
- (g) "Km" means Kilometers;
- (h) "PIU" means the Project Implementation Unit, as more fully described in paragraph 2 of Schedule 5 to the SF Loan Agreement;
- (i) "Project Executing Agency" for the purposes, and within the meaning of the Loan Regulations means DOW which is responsible for the carrying out of the Project;
- (j) "Project facilities" mean the local roads, equipment and facilities to be rehabilitated, upgraded or provided under the Project;
- (k) "PSC" means the Project Steering Committee referred to in paragraph 3 of Schedule 5 to the SF Loan Agreement;
- (l) "SF Loan Agreement" means the agreement of even date herewith between the Borrower and ADB, as referred to in recital (C) to this Loan Agreement; and
- (m) "Subproject" means a specific road upgrading or rehabilitation subproject included in the Project as described in paragraph 2 of Schedule 1 to the SF Loan Agreement.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from the ADB's ordinary capital resources an amount of thirty five million dollars (\$35,000,000), 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 term of 24 years, including a grace period of 4 years, as provided in Schedule 1 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.

Section 2.03. (a) The Borrower shall pay a commitment charge at the rate of three-fourths of one percent (0.75%) per annum. Such charge shall accrue on amounts of the Loan (less amounts withdrawn from time to time), during successive periods commencing sixty (60) days after the date of this Loan Agreement, as follows:

during the first twelve-month period, on \$ 5,250,000;
 during the second twelve-month period, on \$15,750,000;
 during the third twelve-month period, on \$29,750,000; and
 thereafter, on the full amount of the Loan.

(b) If any amount of the Loan is cancelled, the amount of each portion of the Loan stated in paragraph (a) of this Section shall be reduced in the same proportion as the cancellation bears to the full amount of the Loan before such cancellation.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 January and 15 July 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 1 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 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 cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The goods and 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 and services and other items of expenditure shall be in accordance with the provisions of Schedule 2 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 and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of this Loan Agreement and the provisions of Schedule 4, to the SF Loan Agreement as such Schedule may be amended from time to time by an agreement between the Borrower and ADB. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and the ADB or where the terms and conditions of the contract are not satisfactory to the ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all goods and 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 2010 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 the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and road construction and maintenance 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 SF Loan Agreement.

Section 4.02. The Borrower shall make available, promptly as needed, 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 and for the operation and maintenance of the Project Facilities.

Section 4.03. (a) In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

(b) The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 4.04. 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 4.05. (a) The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project and each Subproject; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.05(a) here above, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.06. The Borrower shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.

Section 4.07. The Borrower shall ensure that the Project facilities are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, road construction and maintenance and operational practices.

ARTICLE V
Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event 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: the Borrower shall have failed to perform any of its obligations under the SF Loan Agreement or the Initial Loan Agreement.

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: the event 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 SF Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled.

Section 6.02. The following is specified as an additional matter for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the SF Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. 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
Miscellaneous

Section 7.01. The Minister for Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Department of Treasury
Vulupindi Haus
P.O. Box 710
Waigani
Port Moresby
Papua New Guinea

Facsimile Numbers:

(675) 312-8804

(675) 312-8808

For ADB

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

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)

42205 ADB PM (ITT)

63587 ADB PN (ETPI)

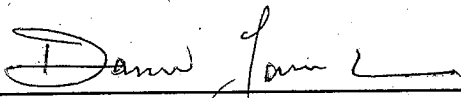
Facsimile Numbers:

(632) 636-2442

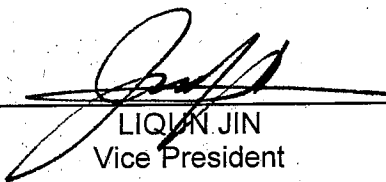
(632) 636-2446

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 
DAMIEN GAMIANDU
Ambassador of the
Independent State of Papua New Guinea
to the Republic of the Philippines

ASIAN DEVELOPMENT BANK

By 
LIQUN JIN
Vice President

SCHEDULE 1
Amortization Schedule
(Road Maintenance and Upgrading [Sector] Project-Supplementary)

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.

Date Payment Due			Installment Share (expressed as a %)
15	July	2010	0.83
15	January	2011	0.87
15	July	2011	0.91
15	January	2012	0.96
15	July	2012	1.01
15	January	2013	1.06
15	July	2013	1.11
15	January	2014	1.16
15	July	2014	1.22
15	January	2015	1.28
15	July	2015	1.35
15	January	2016	1.42
15	July	2016	1.49
15	January	2017	1.56
15	July	2017	1.64
15	January	2018	1.72
15	July	2018	1.81
15	January	2019	1.90
15	July	2019	1.99
15	January	2020	2.09
15	July	2020	2.20
15	January	2021	2.31
15	July	2021	2.42
15	January	2022	2.54
15	July	2022	2.67
15	January	2023	2.80
15	July	2023	2.94
15	January	2024	3.09

Date Payment Due			Installment Share (expressed as a %)
15	July	2024	3.25
15	January	2025	3.41
15	July	2025	3.58
15	January	2026	3.76
15	July	2026	3.94
15	January	2027	4.14
15	July	2027	4.35
15	January	2028	4.57
15	July	2028	4.79
15	January	2029	5.03
15	July	2029	5.29
15	January	2030	5.54
Total			<u>100.00</u> %

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 2
Allocation and Withdrawal of Loan Proceeds

General

1. This Schedule sets forth the allocation of amounts of the Loan.

Taxes

2. No withdrawals from the Loan Account shall be made in respect of any local taxes.

Withdrawals

3. Subject to the provisions of Section 3.01 of the Loan Agreement, and except as the Borrower and ADB may otherwise agree, the Loan proceeds shall be disbursed on the basis of the following percentages and amounts for each category:

- (i) civil works – up to \$28,120,000, representing 53 percent of total eligible expenditures;
- (ii) consulting services – \$2,120,000, representing 66 percent of total expenditures; and
- (iii) Unallocated – up to \$4,760,000.

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 above appears to be insufficient to finance all agreed expenditures in that category, ADB may, in pre-consultation with and 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, in pre-consultation with and by notice to the Borrower, reallocate such excess amount to any other category.