

No. 8660

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
ICELAND**

Guarantee Agreement—*Burfell Power Project* (with annexed Loan Regulations No. 4 and Loan Agreement between the Bank and Landsvirkjun). Signed at Washington, on 14 September 1966

Official text: English.

Registered by the International Bank for Reconstruction and Development on 23 June 1967.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
ISLANDE**

Contrat de garantie — *Projet relatif à l'énergie électrique de Burfell* (avec, en annexe, le Règlement n° 4 sur les emprunts et le Contrat d'emprunt entre la Banque et la Landsvirkjun). Signé à Washington, le 14 septembre 1966

Texte officiel anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 23 juin 1967.

No. 8660. GUARANTEE AGREEMENT¹ (*BURFELL POWER PROJECT*) BETWEEN THE REPUBLIC OF ICELAND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 14 SEPTEMBER 1966

AGREEMENT, dated September 14, 1966, between REPUBLIC OF ICELAND (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Landsvirkjun (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to eighteen million dollars (\$18,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided ; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower ;

NOW THEREFORE, it is hereby agreed as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,³ with the same force and effect as if they were fully set forth herein, subject, however, to the modification thereof set forth in Section 1.01 of the Loan Agreement (said Loan Regulations No. 4 as so modified, being hereinafter called the Loan Regulations).

Section 1.02. Wherever used in this Guarantee Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement shall have the same meanings therein set forth.

¹ Came into force on 20 September 1966, upon notification by the Bank to the Government of Iceland

² See p. 234 of this volume

³ See p. 232 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for carrying out the Project, promptly to make arrangements, satisfactory to the Bank, to provide the Borrower or cause the Borrower to be provided with such funds as and when needed to meet such expenditures

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property, or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including assets of Sedlabanki Islands (the Central Bank of Iceland) or any institution performing the functions of a central bank.

Section 3.02 (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information

shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Guarantor (i) shall furnish to the Bank all such information as the Bank shall reasonably request concerning the relations between the Guarantor, the Borrower and the Township, on the one hand, and Alusuisse and ISAL, on the other hand, and the exercise of their respective rights and the carrying out of their respective obligations under the Master Agreement and the Scheduled Contracts, and (ii) shall promptly inform the Bank of any failure by Alusuisse or ISAL to comply with their obligations under the Master Agreement or the Scheduled Contracts or any other condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes imposed under the laws of the Guarantor or laws in effect in its territories, provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor

Section 3.04. This Guarantee Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

Section 3.06 (a) Except as the Guarantor and the Bank shall otherwise agree, the Guarantor shall, to the extent that it has an interest therein and is obligated or entitled to do so, take all such reasonable action, including the exercise of any rights and remedies available to it, as shall be appropriate to maintain in full force and effect the Master Agreement, the Scheduled Contracts, the Partnership Agreement, the Purchase Agreements and the External Bonds, and to secure the prompt and diligent performance by the parties thereto of their respective obligations thereunder.

(b) The Guarantor and the Bank shall exchange views as to any arbitral or judicial proceeding contemplated or undertaken pursuant to any of the Master Agreement, the Scheduled Contracts, the Partnership Agreement, the Purchase Agreements and the External Bonds in which the Guarantor has an interest. The Guarantor shall promptly advise the Bank of any such proceeding contemplated or undertaken and shall give the Bank such information as the Bank shall reasonably request to enable the Bank if it so desires to make its views thereon known to the Guarantor and in any such proceeding.

Section 3 07 Any amounts received by the Guarantor from SKA under the Performance Guaranty Agreement shall be deposited and retained by the Guarantor in a special account and shall only be used for the purposes and in the manner as shall be agreed upon by the Guarantor and the Bank

Section 3 08 (a) The Guarantor and the Bank shall from time to time exchange views as to any notices to be given by the Guarantor pursuant to Sections 9.06 and 9.07 of the Master Agreement, and the Guarantor shall not give any such notice or consent without first consulting the Bank with respect thereto.

(b) The Guarantor shall not give any consent or agreement pursuant to Sections 22.01, 22.02, 24.03 and 29.02 of the Master Agreement unless the Bank shall so agree.

Section 3.09. The Guarantor shall promptly notify the Bank of the occurrence of any event referred to in Section 10.02, Article 26, Section 35.03, Article 39, Section 41.02 (a), Article 42, and Section 43.03 of the Master Agreement.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance of the Guarantor and such person or persons as he shall appoint in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor :

Sedlabanki Islands
Ríkisabyrgdasjodur
Austurstraeti 11
Reykjavík, Iceland

Alternative address for cablegrams and radiograms .

Centralbank
Reykjavik

For the Bank :

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

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

Section 5 02 The Minister of Finance of the Guarantor is designated for the purposes of Section 8 03 of the Loan Regulations.

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

Republic of Iceland :

By P. THORSTEINSSON
Authorized Representative

International Bank for Reconstruction and Development :

By J Burke KNAPP
Vice President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No 4, DATED 15 FEBRUARY 1961

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS OTHER THAN
MEMBER GOVERNMENTS

[*Not published herein. See United Nations, Treaty Series, Vol 400, p. 212*]

LOAN AGREEMENT
(BURFELL POWER PROJECT)

AGREEMENT, dated September 14, 1966, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and LANDSVIRKJUN (National Power Company, hereinafter called the Borrower), a company established by the Act Number 59 of May 20, 1965 of the Republic of Iceland (hereinafter called the Guarantor)

WHEREAS (A) the Borrower and the Guarantor propose to carry out a project for the construction and operation of a hydroelectric generating station at Burfell on the Thjorsa River in Iceland and of certain power transmission lines and related facilities, all as herein-after more fully described, and have requested the Bank to assist in the financing of said project ,

(B) the Borrower has made arrangements to finance part of the cost of said project by the sale to several institutional investors of bonds in the aggregate principal amount of six million dollars (\$6,000,000) ,

(C) Swiss Aluminium Limited, a company organized under the laws of Switzerland, proposes to build an aluminium smelter in Iceland, which will use a substantial part of the power to be generated by said project, and arrangements regarding the construction of the smelter, the purchase and sale of such power and certain related matters have been made among the Guarantor, the Borrower, Swiss Aluminium Limited and other parties under a Master Agreement and other Scheduled Contracts hereinafter defined ; and

(D) by a Guarantee Agreement of even date herewith¹ between the Guarantor and the Bank, the Guarantor has agreed among other things to guarantee the obligations of the Borrower in respect of the loan provided for in this Agreement ;

WHEREAS the Bank, on the basis *inter alia* of the foregoing, has agreed to make a loan to the Borrower on the terms and conditions hereinafter set forth ,

NOW THEREFORE, it is hereby agreed as follows :

Article I

LOAN REGULATIONS ; SPECIAL DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,² with the same force and effect as if they were fully set forth herein, subject, however, to the following modification thereof (said Loan Regulations No 4 as so modified being hereinafter called the Loan Regulations), namely, by the deletion of Section 9.04 and the substitution therefor of the following new Section :

“SECTION 9.04. *Termination of Guarantee Agreement Upon Termination of Loan Agreement* If, in accordance with the provisions thereof, the Loan Agreement

¹ See p. 224 of this volume

² See p. 232 of this volume

shall be terminated for failure to become effective, the Guarantee Agreement and all obligations of the parties thereunder shall also terminate. The Bank shall promptly give notice of such termination to the Guarantor "

Section 1.02 Unless the context otherwise requires, the following terms wherever used in this Loan Agreement have the following meanings :

(a) the term "Alusuisse" means Swiss Aluminium Limited, a company organized under the laws of Switzerland ,

(b) the term "ISAL" means Icelandic Aluminium Company Limited, a subsidiary of Alusuisse organized under the laws of the Guarantor ;

(c) the term "Township" means the Township of Hafnarfjörður in Iceland ;

(d) the term "SKA" means Swiss Credit Bank, a banking corporation organized under the laws of Switzerland ,

(e) the term "Purchase Agreements" means the agreements to be entered into between the Borrower and The Equitable Life Assurance Society of the United States and other institutional investors providing for the purchase by said investors of bonds to be issued by the Borrower, with the guarantee of the Guarantor, of an aggregate principal amount of six million dollars (\$6,000,000) ;

(f) the term "External Bonds" means the bonds to be issued by the Borrower pursuant to the Purchase Agreements ;

(g) the term "Master Agreement" means the agreement between the Guarantor and Alusuisse, dated March 28, 1966, providing, among other things, for certain obligations of the Guarantor and of Alusuisse in connection with the construction and operation of the Burfell Facilities and the Smelter (as therein respectively defined), and for other related matters ,

(h) the term "Power Contract" means the agreement, attached as Schedule A to the Master Agreement, entered into on June 28, 1966 between the Borrower and ISAL, providing for the sale of power to ISAL, for certain obligations of the Borrower and ISAL in connection therewith, and for other related matters ,

(i) the term "Smelter Site and Harbor Agreement" means the agreement, attached as Schedule B to the Master Agreement, entered into on June 28, 1966 between ISAL and the Township, providing for the leasing of land to ISAL, for the construction of a harbor and related facilities, and for other related matters ,

(j) the term "Assistance Agreements" means the three agreements, attached as Schedules C1, C2 and C3 to the Master Agreement, entered into on June 28, 1966 between ISAL and Alusuisse, whereby, among other things, Alusuisse has agreed to assist ISAL in the design, construction and operation of the Smelter (as therein defined) and in the sale of aluminium ,

(k) the term "Performance Guaranty Agreement" means the agreement dated March 28, 1966, between the Guarantor and Alusuisse, providing for a guarantee of timely construction of the First Stage of the Smelter (as therein defined) ;

(l) the term "Letter of Guaranty" means the credit instrument to be issued by SKA on the Effective Date in connection with the Performance Guaranty Agreement, evidencing SKA's undertaking to pay certain funds to the Guarantor, at the times and upon the conditions set forth in the Performance Guaranty Agreement ;

(*m*) the term "Partnership Agreement" means the agreement dated July 1, 1965, between the Guarantor and the City of Reykjavik concerning their joint ownership of the Borrower ;

(*n*) the term "Scheduled Contracts" means the Power Contract, the Smelter Site and Harbor Agreement, the Assistance Agreements, the Performance Guaranty Agreement and the Letter of Guaranty ;

(*o*) the term "Act" means the Act Number 59 of May 20, 1965 providing for the establishment of the Borrower , and

(*p*) the term "Regulations" means the Regulations issued on June 14, 1966 by the Minister for Electricity of the Guarantor pursuant to the Act

Article II

THE LOAN

Section 2.01 The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to eighteen million dollars (\$18,000,000).

Section 2.02 The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Loan Agreement.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-eighths of one per cent ($\frac{3}{8}$ of 1 %) per annum on the principal amount of the Loan not so withdrawn from time to time

Section 2.04 The Borrower shall pay interest at the rate of six per cent (6%) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1 %) per annum on the principal amount of any such special commitments outstanding from time to time.

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

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Agreement.

Section 2.08. For the purposes of facilitating the sale of portions of the Loan or Bonds, it is agreed that in connection with any such sale, notwithstanding the provisions of Sections 3.03 and 3.04 of the Loan Regulations, the Bank and the Borrower, with the consent of the Guarantor, may from time to time agree that any portion of the Loan repayable in one currency may be made repayable in one or more other currencies and from the date specified in such agreement such portion of the Loan shall be repayable in such other currency or currencies

Article III

USE OF PROCEEDS OF THE LOAN

Section 3 01 The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project described in Schedule 2 to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3 02 The Borrower shall cause all goods financed out of the proceeds of the Loan to be imported into the territories of the Guarantor and there to be used exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4 01 The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The Chairman of the Board of Directors of the Borrower and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations.

Section 4 03. Notwithstanding the provisions of Section 6.06 of the Loan Regulations, the Bank may from time to time request pursuant to Section 6.03 or Section 6.11 of the Loan Regulations, and the Borrower shall execute and deliver, Bonds providing: (a) for the payment on a single date of two or more maturities, or parts thereof, specified in such request, of instalments of the principal amount of the Loan set forth in Schedule 1 to this Agreement; (b) that the principal amount of each such Bond shall be payable in a single currency on the date of the latest maturity of the instalments specified in such request; (c) that as a sinking fund for such Bonds the Borrower will, on each date specified in Schedule 1 to this Agreement as the maturity of an instalment of the portion, or all, of the Loan represented by such Bonds, redeem a principal amount of such Bonds equal to the amount of such instalment; (d) that the Bonds to be redeemed in whole or in part shall be selected by lot; (e) that no premium shall be payable on such redemption; (f) that, on or before any such redemption date, the Borrower may credit against the principal amount of Bonds so to be redeemed the principal amount of any Bonds issued pursuant to such request which shall have been purchased or otherwise acquired and retired by the Borrower prior to such date and which shall not previously have been credited against any sinking fund obligation; and (g) that all Bonds redeemed pursuant to, or credited against, any sinking fund obligation shall be retired and shall not be reissued. All the provisions of this Article IV and of Article VI of the Loan Regulations shall apply to such Bonds except that such appropriate changes shall be made in the forms of Bonds as the Bank shall reasonably request in order to give effect to the provisions of this Section 4.03.

Article V

PARTICULAR COVENANTS

Section 5 01 (a) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering, financial and public utility practices

(b) Except as the Bank shall otherwise agree, the Borrower shall, in the carrying out of the Project, employ competent and experienced consultants and contractors acceptable to, and to an extent and upon terms and conditions satisfactory to, the Bank and the Borrower

Section 5.02 (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans and specifications and the construction and installation schedules for the Project, and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request

(b) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the financial condition and operations of the Borrower.

(c) The Borrower shall enable the Bank's representatives to inspect the Project, the goods, and all other plants, works, properties and equipment of the Borrower, and to examine any relevant records and documents.

(d) The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods, the Purchase Agreements, the External Bonds, the administration, operations and financial condition of the Borrower, its relations with ISAL and the exercise of the Borrower's and ISAL's respective rights, and the carrying out of their respective obligations, under the Power Contract and any other agreements related thereto

(e) The Borrower shall have its financial statements (balance sheet and related statement of earnings and expenses) certified annually by an independent accountant or accounting firm acceptable to the Bank and shall promptly after their preparation and not later than four months after the close of the Borrower's fiscal year transmit to the Bank certified copies of such statements and a signed copy of the accountant's or accounting firm's report.

Section 5 03 (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

(b) The Bank and the Borrower shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof, and the performance by the Borrower of its obligations under this Loan Agreement The Borrower shall promptly inform the Bank of any

condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Borrower of its obligations under this Loan Agreement, the Power Contract, the Purchase Agreements and the External Bonds

(c) The Bank and the Borrower shall from time to time exchange views as to any notice to be given pursuant to Section 9 02 of the Master Agreement and as to the agreements to be entered into with ISAL pursuant to Sections 9.03 and 9.04 of the Master Agreement, and the Borrower shall not give any such notice or enter into any such agreement without first notifying the Bank with respect thereto.

(d) The Borrower shall not grant permission to ISAL pursuant to Sections 12.01 and 12.02 of the Power Contract without first consulting the Bank with respect thereto.

Section 5 04. (a) The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect, provided, however, that the foregoing provisions of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property, or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date in which it is originally incurred.

(b) The Borrower shall not, without the prior approval of the Bank, sell, lease, transfer or otherwise dispose of any of its property or assets which shall be required for the efficient operation of its business and undertaking, including the Project, unless the Borrower shall first pay or redeem, or make adequate provision satisfactory to the Bank for payment or redemption of, all of the Loan and the Bonds which shall then be outstanding and unpaid.

Section 5 05 The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Loan Agreement, the Guarantee Agreement or the Bonds, or the payment of principal, interest or other charges thereunder, provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor,

Section 5 06 The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Loan Agreement, the Guarantee Agreement or the Bonds

Section 5 07. Except as the Bank shall otherwise agree, the Borrower shall take out and maintain or cause to be taken out and maintained such insurance, against such risks

and in such amount, as shall be consistent with sound practice and, without any limitation upon the foregoing, such insurance shall cover marine, transit and other hazards incident to acquisition, transportation and delivery of the goods financed out of the proceeds of the Loan to the place of use or installation and any indemnity thereunder shall be payable in a currency freely usable to replace or repair such goods

Section 5.08 The Borrower . (i) shall at all times take all steps necessary to maintain its existence and right to carry on operations ; (ii) shall operate and maintain its plants, equipment and property, and make all necessary renewals and repairs thereof, all in accordance with sound engineering standards , (iii) shall, except as the Bank shall otherwise agree, take all steps necessary to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful for the construction and operation of the Project and the conduct of its business , and (iv) shall at all times carry on its operations and maintain its financial position in accordance with sound business, financial and public utility principles and practices, under the supervision of qualified and experienced management.

Section 5.09. (a) Except as the Bank and the Borrower shall otherwise agree, (i) the Borrower shall, to the extent that it is obligated or entitled to do so, take all such reasonable action, including the exercise of any rights and remedies available to it, as shall be appropriate to secure the prompt and diligent performance by the parties to the Power Contract and the Purchase Agreements of their obligations thereunder, and (ii) the Borrower shall not amend, abrogate, assign or waive in any material respect any provision of the Power Contract, the Purchase Agreements or the External Bonds.

(b) The Bank and the Borrower shall exchange views as to any arbitral or judicial proceeding contemplated or undertaken pursuant to the Power Contract, the Purchase Agreements or the External Bonds. The Borrower shall promptly advise the Bank of any such proceeding contemplated or undertaken and shall give the Bank such information as the Bank shall reasonably request to enable the Bank if it so desires to make its views thereon known to the Borrower and in any such proceeding.

Section 5.10. Except as the Bank and the Borrower shall otherwise agree, if the Borrower shall repay in advance of maturity any part of its indebtedness under the External Bonds, other than the sinking fund redemptions required by the covenants contained in such External Bonds, the Borrower shall simultaneously repay a proportionate amount of the Loan and the Bonds then outstanding. All the provisions of the Loan Regulations relating to repayment in advance of maturity, including the requirement of notice, shall be applicable to any repayment by the Borrower in accordance with this Section, provided, however, that partial payment of the principal amount of any one maturity shall be permitted to the extent required to complete such proportionate repayment

Section 5 11 Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur : (i) prior to the Closing Date any short-term debt exceeding in the aggregate at any one time the equivalent of \$600,000 or any long-term debt , and (ii) after the Closing Date any debt which, together with any debt incurred under (i) above, shall exceed in the aggregate at any one time the equivalent of \$800,000 unless its net revenue for the fiscal year next preceding such incurrence or for a later twelve-month period ended prior to such incurrence, whichever is the greater, shall be not less than 1 5 times the maximum debt service requirement for any succeeding fiscal year on all debt, including the debt to be incurred For the purposes of this Section .

(a) The terms "short-term debt" and "long-term debt" shall include the assumption and guarantee of debt The term "short-term debt" shall mean all indebtedness of the Borrower maturing by its terms on demand or less than one year after the date on which it is originally incurred. The term "long-term debt" shall mean all indebtedness of the Borrower maturing by its terms one year or more after the date on which it is originally incurred The term "debt" shall mean both short-term debt and long-term debt

(b) Short-term debt shall be deemed to be incurred on the date it is drawn down pursuant to the contract, agreement or other instrument providing for such debt. Long-term debt shall be deemed to be incurred on the date of execution and delivery of a contract, agreement or other instrument providing for such debt

(c) The term "net revenue" shall mean gross revenue from all sources, adjusted to take account of power rates in effect at the time of the incurrence of debt even though they were not in effect during the fiscal year or twelve-month period to which such revenue relates, less all operating and administrative expenses and provision for taxes, if any, but before provision for depreciation, interest and other charges on debt.

(d) The term "debt service requirement" shall mean the aggregate amount of amortization (including sinking fund payments, if any), interest and other charges on debt.

(e) Debt service payable in a currency other than currency of the Guarantor shall be valued at the prevailing lawful rate of exchange at which such other currency is obtainable, on the date the additional debt is proposed to be incurred, for the purpose of servicing such debt, or, if such currency is not so obtainable, at the rate of exchange as reasonably determined by the Bank

Section 5 12 The Borrower shall from time to time take all steps necessary to obtain revenues from its operations sufficient to provide a return of at least 8% (or such other percentage as may from time to time be agreed between the Bank and the Borrower) on its net fixed assets in operation at the beginning of each year For the purposes of this Section :

(i) The term "net fixed assets in operation" means the net fixed assets in operation, after deducting the total depreciation reserve computed in accordance with the straight-line method at annual rates of depreciation to be agreed from time to time between the Bank and the Borrower

- (ii) The term "return" means the net amount of income after deducting from gross operating revenue all expenses of operation, including adequate maintenance and depreciation, administration and general expenses and taxes, if any, but excluding interest and other charges on debt

Section 5.13. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall apply the proceeds from the sale of the External Bonds exclusively for purposes of the Project

Article VI

REMEDIES OF THE BANK

Section 6 01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of 30 days, or (ii) if any event specified in paragraph (a), paragraph (b), paragraph (e), paragraph (f) or paragraph (h) of Section 6 02 of this Agreement shall occur, or (iii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations or paragraph (g) of Section 6 02 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Loan Agreement or in the Bonds to the contrary notwithstanding

Section 6 02 The following are hereby specified as additional events for the purposes of Section 5 02 of the Loan Regulations

- (a) Any loan or credit to the Borrower having an original maturity of one year or more, including the External Bonds, shall have become due and payable prior to its agreed maturity pursuant to the terms thereof
- (b) The Guarantor or Alusuisse shall have terminated the Master Agreement pursuant to Article 41 thereof
- (c) The Letter of Guaranty shall have been cancelled pursuant to the provisions of Section 4.02 of the Performance Guaranty Agreement
- (d) Alusuisse shall have declared a postponement of the First Power Delivery Date (PDD I) pursuant to the provisions of Section 9 05 of the Master Agreement, and said postponement shall have been effected either by agreement between the Guarantor and Alusuisse or by adjudication or arbitration as provided in Section 9.08 of the Master Agreement.
- (e) The Guarantor shall have amended, abrogated, assigned or waived in any material respect any provision of the Master Agreement, the Scheduled Contracts, or the Partnership Agreement without the agreement of the Bank
- (f) A Termination Default under Section 41.02 (b) of the Master Agreement shall have occurred and shall be continuing.
- (g) Any provision of the Act or the Regulations shall have been amended, suspended, abrogated or repealed so as to affect adversely the financial condition or operations of the Borrower or the performance by the Borrower of its obligations under the Loan Agreement.

- (h) Payment for the External Bonds under any of the Purchase Agreements shall not have been made on account of failure by the Borrower or the Guarantor to fulfill the respective conditions for such payment

Article VII

EFFECTIVE DATE ; TERMINATION

Section 7.01 The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 9.01 (c) of the Loan Regulations :

- (a) that all such action, governmental or other, shall have been taken and all such governmental and other consents shall have been obtained as may be required to enable the Borrower to acquire such land, interest in land and properties and such franchises or other rights as are needed for construction of the Project , and
- (b) that the Master Agreement, the Power Contract, the Smelter Site and Harbor Agreement, the Assistance Agreements, the Performance Guaranty Agreement, and the Partnership Agreement, in the form heretofore executed, the Letter of Guaranty, in the form attached as Annex A to the Performance Guaranty Agreement, and the Purchase Agreements, substantially in the form of the Proof of September 2, 1966 which has been furnished to the Bank, shall have all been duly executed and delivered as between the parties thereto and shall have become fully effective in accordance with their terms, subject only to the effectiveness of this Loan Agreement

Section 7.02 The following are specified as additional matters, within the meaning of Section 9.02 (c) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank :

- (a) that the Borrower has full power and authority to construct and operate the Project and has all necessary rights and powers in connection therewith, including the matters covered by Section 7.01 (a) of this Agreement , and
- (b) that the Master Agreement, the Scheduled Contracts, the Partnership Agreement and the Purchase Agreements have been duly authorized or ratified by, and executed and delivered on behalf of, the several parties thereto and are valid and enforceable in accordance with their respective terms

Section 7.03 If this Loan Agreement shall not have come into force and effect by December 31, 1966, this Loan Agreement and all obligations of the parties hereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for purposes of this Section. The Bank shall promptly notify the Borrower and the Guarantor of such later date

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be December 31, 1970, or such other date as shall be agreed by the Bank and the Borrower

Section 8.02 The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Bank ·

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

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D C.

For the Borrower :

Landsvirkjun
Sudurlandsbraut 14
Reykjavik, Iceland

Alternative address for cablegrams and radiograms :

Landsvirkjun
Reykjavik

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 delivered 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 J. Burke KNAPP
Vice President

Landsvirkjun :

By Johannes NORDAL
Authorized Representative

SCHEDULE 1

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
April 1, 1971	\$230,000	October 1, 1981	\$425,000
October 1, 1971	235,000	April 1, 1982	440,000
April 1, 1972	245,000	October 1, 1982	450,000
October 1, 1972	250,000	April 1, 1983	465,000
April 1, 1973	260,000	October 1, 1983	480,000
October 1, 1973	265,000	April 1, 1984	495,000
April 1, 1974	275,000	October 1, 1984	510,000
October 1, 1974	280,000	April 1, 1985	525,000
April 1, 1975	290,000	October 1, 1985	540,000
October 1, 1975	300,000	April 1, 1986	555,000
April 1, 1976	310,000	October 1, 1986	570,000
October 1, 1976	315,000	April 1, 1987	590,000
April 1, 1977	325,000	October 1, 1987	605,000
October 1, 1977	335,000	April 1, 1988	625,000
April 1, 1978	345,000	October 1, 1988	645,000
October 1, 1978	355,000	April 1, 1989	665,000
April 1, 1979	365,000	October 1, 1989	685,000
October 1, 1979	380,000	April 1, 1990	705,000
April 1, 1980	390,000	October 1, 1990	725,000
October 1, 1980	400,000	April 1, 1991	735,000
April 1, 1981	415,000		

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3 03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	½ %
More than three years but not more than six years before maturity	1 %
More than six years but not more than eleven years before maturity	2 %
More than eleven years but not more than sixteen years before maturity	3 %
More than sixteen years but not more than twenty-one years before maturity	4 %
More than twenty-one years but not more than twenty-three years before maturity	5 %
More than twenty-three years before maturity	6 %

SCHEDULE 2

DESCRIPTION OF PROJECT

The Project consists of :

1 The construction of a hydroelectric generating station on the Thjorsa River near the Burfell Mountain, with associated headrace and tailrace works, equipped with three 35,000 kw generators. The generating station and associated works will be constructed to provide for the ultimate capacity of six 35,000 kw generators.

2 The construction of substations and switching facilities at Geithals, Irafoss and Straumsvik.

3. The construction of a 220 kv single circuit transmission line about 94 kilometers long from the Burfell generating station to Irafoss and Geithals, and of two 220 kv single circuit transmission lines, each 17 kilometers long, from Geithals to Straumsvik

* * *

The Project is expected to be completed by December 31, 1969.
