Energy Community of South East Europe Program

Guarantee Agreement

(FYR Macedonia Component – AD MEPSO Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 19, 2006
GUARANTEE AGREEMENT

AGREEMENT, dated April 19, 2006, between the Guarantor and the Bank.

WHEREAS (A) the Guarantor and Ad prenos na elektricna energija i upravuvanje so elektroenegetski sistem, vo drzava sopstvenost, Skopje (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in the amount of twenty million seven hundred thousand Euro (€20,700,000), 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 provided in this Agreement; 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 the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in Section 1.01 of the Loan Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth.
ARTICLE II

Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

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 the carrying out of the Project, to make arrangements, satisfactory to the Bank, to cause the Borrower to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor shall take all necessary steps acceptable to the Bank to ensure that AD MEPSO remains financially viable. Without limiting the generality of the foregoing, the Guarantor shall take all necessary actions to ensure that payments discipline is enforced in the electricity sector on the territory of the Guarantor. Such actions may include, but shall not be limited to, ensuring that the laws, regulations and similar instruments of the Guarantor permit disconnection of non-paying customers. The Guarantor shall also ensure that the Regulatory Commission for Energy of the Guarantor acts in accordance with the Energy Law (Official Gazette of the Guarantor Numbers 47/97, 40/99, 98/2000, 94/2002, 38/2003 and 40/2005) including, without limitation, in respect of the setting of tariffs.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Minister of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.
Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Ministry of Finance
Dame Gruev 14
1000 Skopje

Cable address: Telex: Facsimile:

51119 (389-2) 311-7280

For the Bank:

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

Cable address: Telex: Facsimile:

INTBAFRAD 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Skopje, as of the day and year first above written.

GUARANTOR

By /s/ Nikola Popovski
Authorized Representative

BANK

By /s/ Sandra Bloemenkamp
Authorized Representative