Loan Agreement

Energy Community of South East Europe Program
(Additional Financing for the FYR Macedonia Component – AD MEPSO Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

OPERATOR NA ELEKTROPRENOSNIOT SISTEM NA MAKEDONIJA,
AKCIONERSKO DRUSTVO ZA PRENOS NA ELEKTRICNA ENERGIJA I
UPRAVUванJE SO ELEKTРОENERGETSKIOT SISTEM VO DRZAVNA
SOPSTVENOST-AD MEPSO SKOPJE

Dated April 11, 2011
LOAN AGREEMENT

Agreement dated April 11, 2011, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and OPERATOR NA ELEKTROPRENOSNIOT SISTEM NA MAKAĐONIJA, AKCIJONERSKO DRUSTVO ZA PRANOS NA ELEKTRIČNIVA ENERGIJA I UPRAVUVANJE SOPSTVENOST- AD MEPSO SKOPE ("Borrower" or "AD MEPSO") a joint stock company established and operating under the laws of the former Yugoslav Republic of Macedonia (“Guarantor”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fourteen million Euro (€14,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by
the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.07. (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, withdrawn or unwithdrawn, to an Approved Currency; and (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 Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following namely that the Resolution or the by-laws of the Borrower governing the Borrower’s activities, as amended to the date of this Agreement, shall have been further amended, suspended, abrogated, repealed or waived, or the Guarantor shall have enacted new legislation or issued new directives, in such a way as to affect materially and adversely the ability of the Borrower to perform any of its obligations or to comply with any of the covenants set forth in this Agreement.
4.02. The Additional Event of Acceleration consists of the following namely that any event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Project Operations Manual, satisfactory to the Bank, has been finalized and adopted by the Borrower.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its General Director.

6.02. The Borrower’s Address is:

AD MEPSO  
ul. Orce Nikolov b.b.  
Skopje 1000

Facsimile:  
(389-2) 311-1160

6.03. The Bank’s Address is:

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 1-202-477-6391  
Washington, D.C. 64145(MCI)
AGREED at Skopje, as of the day and year first above written.

AD MEPSO

By /s/ Dejan Boskovski

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Evgenij Najdov

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to support the functioning of AD MEPSO in the context of the regional power market through financing investments necessary to rehabilitate and upgrade the power transmission network, increase the level of interconnection with neighboring power systems, and to strengthen the institutional capacity of AD MEPSO.

The Project consists of Part B.1 of the Original Project, namely replacement of an existing 110kV transmission line from the Skopje 1 substation to the Tetovo 1 substation to reduce outages and to reduce risks to the general public, and the following additional sub-component (c) under Part B.2 of the Original Project, namely the construction of a new line from the Stip substation to the border with the Republic of Serbia.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Except as the Bank shall otherwise agree, the Borrower shall be responsible for the implementation of the Project, in a timely and effective manner, and shall carry out the Project, through its PIU, in accordance with the Project Operations Manual.

2. The PIU shall be responsible for the coordination of Project procurement and financial management and the Borrower shall maintain the PIU until completion of the Project with sufficient resources, as well as with qualified and competent staff, including staff from AD MEPSO’s Office for International Cooperation.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Financial covenant

1. Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, unless the net revenues of the Borrower for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.5 times the estimated maximum debt service requirements of the Borrower for any succeeding fiscal year on all debt of the Borrower, including the debt to be incurred.

2. For the purposes of this Section:

   (a) The term “debt” means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.

   (b) Debt shall be deemed to be incurred:

      (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and

      (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
(c) The term “net revenues” means the difference between:

(i) the sum of revenues from all sources related to operations and net non-operating income; and

(ii) the sum of all expenses related to operations including license fees, administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(d) The term “net non-operating income” means the difference between:

(i) revenues from all sources other than those related to operations; and

(ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.

D. Safeguards. Except as the Bank shall otherwise agree, the Borrower shall:

1. Provide the Bank for its prior review and no objection, on a timely basis and in any event prior to the commencement of construction or implementation, with a draft of the EMP prepared in accordance with the requirements of the EAFD for each of the Borrower’s proposed investments financed under the Project;

2. provide the Bank for its prior review and no objection, on a timely basis and in any event prior to the commencement of construction or implementation, with a draft of the LAP prepared in accordance with the requirements of the LAFP, for each of the Borrower’s proposed investments financed under the Project; and

3. (a) implement the EAFD, the EMPs, the LAFP and LAPs in accordance with their respective terms, and apply and implement, as the case may be, the criteria, policies, procedures and arrangements therein respectively set forth; and (b) not amend or waive, or permit to be amended or waived the EAFD, the EMPs, or the LAFP or the LAPs, or any provision of any one thereof without the prior agreement of the Bank.
Section II.  Project Monitoring Reporting and Evaluation

A.  Project Reports

1.  The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank, and including specific environmental reports and land acquisition reports providing results of the monitoring programs undertaken in accordance with the FEAP and the LAFP, as the case may be. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.

B.  Financial Management, Financial Reports and Audits

1.  The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2.  Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3.  The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III.  Procurement

A.  General

1.  Goods. All goods required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2.  Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3.  Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts
refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shopping</td>
</tr>
<tr>
<td>(b) Direct Contracting</td>
</tr>
</tbody>
</table>

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(b) Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.
Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in EUR)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, including supply and installation, and consultants’ services for the Project</td>
<td>13,965,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>35,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>14,000,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is March 31, 2014.
SCHEDULE 3

Amortization Schedule

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 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 the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15 Beginning May 15, 2017 through May 15, 2032</td>
<td>3.13%</td>
</tr>
<tr>
<td>On November 15, 2032</td>
<td>2.97%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any amount withdrawn 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 the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn 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.

   (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is 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.
APPENDIX

Section I. Definitions

1. “AD MEPSO” means Operator Na Elektroprenosniot Sistem Na Makedonija, Akcionersko Drustvo Za Prenos Na Elektricna Energija I Upravuvanje So Elektroenergetski Sistem Vo Drzavna Sopstvenost- AD MEPSO Skopje, a joint stock company established and operating pursuant to Resolution No. 23-3343/1 of the Government of the Guarantor, dated September 27, 2004, whose Charter and By-laws were published in the Official Gazette of the Guarantor, dated December 27, 2004, under Number 92/2004 and amended and re-published in the Official Gazette of the Guarantor, dated February 12, 2008, under Number 21/08, and which was registered on December 31, 2004 in the Trade Register of Basic Court Skopje I under the number 02060952-4-09-000 pursuant to Registration Resolution No. 558/2004 issued by the Registration Court.


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “EAFD” means the Environmental Assessment Framework Document, dated February 16, 2011, prepared by the Borrower and approved by the Bank describing the environmental issues, mitigation, monitoring and institutional measures for the Project, as the same may be amended from time to time with the prior agreement of the Bank.

6. “EMPs” means, collectively, the Environmental Management Plans prepared by the Borrower and satisfactory to the Bank, dated August 2005, in respect of the expansion of the Skopje 5 substation, dated September 2005, in respect of the construction of the 400 kV interconnection transmission line between the Guarantor and the Hellenic Republic, dated December 31, 2010 in respect of the construction of each of the Bitola and Skopje-Tetovo overhead transmission lines, and dated December 31, 2010 in respect of the construction of the 400 kV interconnection transmission line between the Guarantor and the Republic of Serbia as well as the environmental management plans to be prepared by the Borrower in consultation with the Guarantor and pursuant to the EAFD, satisfactory to the Bank, in connection with the Borrower’s additional investments in power lines and substations financed under the Project, in each
case setting forth the measures to be taken during the implementation and operation of the investments to avoid or reduce adverse environmental impacts, and the actions needed to implement these measures.


8. “LAP” means a site-specific land acquisition plan required to be prepared pursuant to Section I.D.2 of Schedule 2 in accordance with the requirements of the LAPF for each of the Borrower’s investments financed under the Project, satisfactory to the Bank, in each case setting forth the measures to be taken during the implementation and operation of the investments to avoid or reduce adverse social impacts, and the actions needed to implement these measures”.

9. “LAPF” means the Land Acquisition Policy Framework, dated February 16, 2011, prepared by the Borrower and approved by the Bank describing the principles and procedures for the acquisition of land required for investments under the Project, as the same may be amended from time to time with the prior agreement of the Bank.

10. “Original Loan Agreement” means the loan agreement for Loan Number 4814-MK (AD MEPSO Project) between the Borrower and the Bank, dated April 19, 2006, as amended up to and including the date of this Agreement.

11. “Original Project” means the Project described in the Original Loan Agreement.

12. “PIU” means the Project Implementation Unit established within the Borrower in July 2005, and referred to in Section I.A.2 of Schedule 2 to this Agreement.


14. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 25, 2011, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

15. “Project Operations Manual” means the operations manual to be adopted by the Borrower and referred to in Section I.A.1 of Schedule 2 to this Agreement, satisfactory to the Bank, describing and setting forth procedures for implementation of the Project and institutional arrangements, consistent with the provisions of this Agreement and with applicable laws and regulations and including, among other things, the fiduciary, technical and operational aspects and procedures for implementation of the Project, including the financial
management procedures (budgeting, accounting and internal control, disbursement and flow of funds, financial reporting, annual reports, internal and external audit arrangements procedures and including the Project specific chart of accounts), procurement procedures, monitoring and evaluation arrangements, other fiduciary and administrative arrangements.

16. “Resolution” means Resolution No. 23-3343/1 of the Government of the Guarantor, dated September 27, 2004, pursuant to which the Borrower was established and is operating.