

CONFORMED COPY

LOAN NUMBER 4828 HR

Guarantee Agreement

(District Heating Project)

between

REPUBLIC OF CROATIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 11, 2006

LOAN NUMBER 4828 HR

GUARANTEE AGREEMENT

AGREEMENT, dated September 11, 2006, entered into between REPUBLIC OF CROATIA (“Guarantor”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) (“Guarantee Agreement”) in connection with the Loan Agreement of same date between the Bank and Hrvatska Elektroprivreda d.d. (“Borrower”) (“Loan Agreement”). The Guarantor and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

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

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

ARTICLE II - GUARANTEE; PROVISION OF FUNDS

Section 2.01. The Guarantor, through MOELE, declares its commitment to the objectives of the Project. 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 all Loan Payments payable by the Borrower pursuant to the Loan Agreement, and the punctual performance of all the other obligations of the Borrower set forth or referred to in the Loan Agreement, and of the Project Implementing Entity set forth in the Project Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor:

(a) specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower and the Project Implementing Entity will be inadequate to meet the estimated expenditures required for the carrying out of the Project, promptly to provide the Borrower and the Project Implementing Entity with the funds needed to meet such expenditures.

(b) shall take all necessary actions to enable and facilitate for the Borrower and the Project Implementing Entity to meet their financial obligations under the Loan and Project Agreements, respectively, including approval of adequate tariffs for district heating, in accordance with the existing legislative and regulatory procedures, as may be proposed for adjustment by the Borrower and the Project Implementing Entity pursuant

to Section V.2 of Schedule 2 to the Loan Agreement, and to Section IV.2 of the Schedule to the Project Agreement.

Section 2.03. The Guarantor shall:

(a) implement the Conclusion of the Government of the Republic of Croatia, Class No. 310-02/06-02/05, Reg. No. 5030122-06-01;

(b) not later than December 31, 2006, approve a methodology for setting the level and structure of tariffs for district heating which would allow district heating companies to cover: their operating costs including depreciation, debt service payments and investments; and thereafter shall submit for the Bank's review and comments any substantive modifications to said methodology;

(c) not later than March 1, 2008, develop and approve a program for introduction of Demand Side Management;

(d) by January 31 of each year during Project implementation, commencing from January 31, 2007, provide the Bank, through MOELE, with annual progress reports on implementation of the Conclusion of the Government of the Republic of Croatia, Class No. 310-02/06-02/05, Reg. No. 5030122-06-01.

ARTICLE III - REPRESENTATIVE; ADDRESSES

Section 3.01. The Guarantor's Representative is the Minister of Finance.

Section 3.02. The Guarantor's Address is:

Ministry of Finance
Katančeva 5
Zagreb 10000
Republic of Croatia

Telex:

862-21215
862-21833

Facsimile:

(385-1) 4922-598

Section 3.03. The Bank's Address is:

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

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| Cable: | Telex: | Facsimile: |
| INTBAFRAD Washington, D.C. | 248423 (MCI) or 64145 (MCI) | (202) 477-6391 |

AGREED at Zagreb, Republic of Croatia, as of the day and year first above written.

REPUBLIC OF CROATIA

By: /s/ Ivan Suker
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Anand K. Seth
Authorized Representative