

**CONFORMED COPY**

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**LOAN NUMBER 4802-0 MK**

**Amended and Restated Loan  
Agreement - MR Transport JSC –  
Skopje**

**(Railways Reform Project)**

**between**

**MACEDONIAN RAILWAYS TRANSPORT JSC - SKOPJE**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated February 21, 2008**

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**LOAN NUMBER 4802-0 MK**

**LOAN AGREEMENT**

Agreement dated February 21, 2008, between MACEDONIAN RAILWAYS TRANSPORT JSC - SKOPJE ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank").

WHEREAS (A) by the Loan Agreement dated February 10, 2006, between the Bank and MR, the Bank has agreed to extend to MR a loan in the amount of fifteen million Euro (□15,000,000), on the terms and conditions set forth in the Loan Agreement, and by an agreement of even date between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of MR in respect of the loan;

(B) MR was subsequently restructured, with two legal successor companies, the Borrower and PE MR Infrastructure – Skopje;

(C) The Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend parts of the Loan to the Borrower and PE MR Infrastructure – Skopje, respectively, upon the terms and conditions set forth in this Agreement and in the Amended and Restated Loan Agreement - PE MR Infrastructure – Skopje, of even date herewith; and

(D) The Guarantor has agreed to guarantee the obligations of the Borrower and PE MR Infrastructure – Skopje with regard to the respective loans by agreements of even date herewith between the Guarantor and the Borrower and PE MR Infrastructure – Skopje, respectively.

NOW THEREFORE the parties hereto 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, the MR Transport JSC – Skopje Guarantee Agreement or in the Appendix to this Agreement.

**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 nine million and thirty thousand

Euro (€9,030,000) (“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 Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time.
- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### **ARTICLE III - PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out Part B of 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 Part B of 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 Railway Laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of ninety (90) days after notice of the event has been given by the Bank to the Borrower.

**ARTICLE V - EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Amended and Restated Loan Agreement – PE MR Infrastructure – Skopje has been executed and delivered and all conditions precedent to its effectiveness have been fulfilled other than those related to the effectiveness of this Agreement; and
  - (b) the Operational Manual has been adopted by the Borrower on terms satisfactory to the Bank.
- 5.02. The Additional Legal Matter consists of the following, namely that the Amended and Restated MR Transport JSC – Skopje Guarantee Agreement has been duly authorized and is legally binding upon the Guarantor in accordance with its terms.
- 5.03. 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 the General Manager.
- 6.02. The Borrower's Address is:

Zeleznicka 50b  
1000 Skopje

Telephone:

+389 2 3220850

Facsimile:

+389 2 3121079

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 Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Skopje, Macedonia, as of the day and year first above written.

**BORROWER**

By: /s/ Blagoja Krstevski

Authorized Representative

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

By: /s/ Markus Repnik

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve the financial viability, productivity and effectiveness of PE MR Infrastructure – Skopje and MR Transport JSC – Skopje’s railway operations.

The Project consists of the following parts:

#### **Part A: Improving infrastructure capacity and effectiveness**

1. Restructuring of railway operations from the infrastructure perspective

(a) Support the restructuring and preparatory steps for the ongoing restructuring of the railway operations.

(b) Support the implementation of the Project, including provision of technical assistance and equipment for the PCU and of financing for the carrying out of auditing services.

2. Social mitigation from the infrastructure perspective

Provision of technical and financial assistance as well as incentives for the Macedonian Railways’ and PE MR Infrastructure-Skopje staff made redundant as a result of its restructuring, including human resource and social services, training and counseling of such staff.

3. Mechanization and modernization

Provision of equipment necessary to carry out the PE MR Infrastructure – Skopje’s mechanization of track maintenance and infrastructure modernization.

#### **Part B: Restructuring of operations to improve capacity and effectiveness**

1. Restructuring of railway operations from the operations perspective

(a) Support the restructuring and preparatory steps for the ongoing restructuring of the railway operations and future privatization of the transport operations.

(b) Support the implementation of the Project, including provision of technical assistance and equipment for the PCU and of financing for the carrying out of auditing services.

2. Social mitigation from the operations perspective

Provision of technical and financial assistance as well as incentives for the Macedonian Railways' and MR Transport JSC Skopje staff made redundant as a result of its restructuring, including human resource and social services, training and counseling of such staff.

3. Increasing operational capacity

Provision of equipment needed to increase MR Transport JSC – Skopje's operational capacity.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Borrower shall maintain, during the execution of the Project, the PCU with staff and resources as shall be required to perform its duties in respect of overall management and implementation of the Project, including reporting on the implementation of the Project to the Steering Committee, in a manner satisfactory to the Bank.

2. The Borrower shall take into account the recommendations of the Steering Committee which shall provide, among others, oversight and policy guidance for the overall implementation of the Project.

3. The Borrower shall ensure that the Project is carried out in accordance with the Operational Manual setting forth the work program for the implementation of the Project, an environmental management plan, and the key instruments for the execution and coordination of the Project, including procurement and financial management procedures and criteria for the provision of human resource services and incentives to staff made redundant as a result of the structural reforms of Borrower's railway operations.

4. The Borrower shall:

(a) carry on its operations under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, under terms satisfactory to the Bank; and

(b) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices, under terms satisfactory to the Bank.

5. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 1, 2008, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section,

on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by May 1, 2008, or such later date as the Bank shall request, the report referred to in the preceding sub-paragraph (b), and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

6. The Borrower shall, by not later than June 30, 2008, ensure the accounting separation of its passenger from freight transportation operations.

7. The Borrower shall:

(a) carry out the staff and cost reduction study envisaged under Part B.1 (a) of the Project under terms and conditions satisfactory to the Bank and shall ensure that it is completed by not later than March 31, 2008; and

(b) ensure that a decision on an appropriate number of the Borrower's staff to be made redundant as a result of the rationalization and restructuring of the Borrower's railway operations is taken in accordance with the staff and cost reduction study envisaged under Part B.1 (a) of the Project, in compliance with the Guarantor's laws and regulations, and in a manner satisfactory to the Bank, not later than September 30, 2008.

## **B. Anti-Corruption**

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

## **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 agreed with the Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

**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 un-audited 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, or such other period as agreed by the Bank. 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 and services (other than consultants' services). The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>	
(a)	Shopping
(b)	Direct Contracting

**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.

<b>Procurement Method</b>	
(a)	Least-cost Selection
(b)	Selection Based on Consultants' Qualifications
(c)	Individual Consultants

**D. Review by the Bank of Procurement Decisions**

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods and services (other than consultants' services) procured on the basis of International Competitive Bidding or Direct Contracting; and (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$75,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$35,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. 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.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in Euro)</b>	<b>Percentage of Expenditures to be financed</b>
(1) Goods, Consultants’ Services and Training for Part B of the Project	9,007,425	100%
(2) Front-end Fee	22,575	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b><u>9,030,000</u></b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of paragraph A.1 of this Section, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$1,800,000, may be made in respect of expenditures before that date but after July 1, 2007.
2. The Closing Date is October 31, 2009.

**SCHEDULE 3**

**Amortization Schedule**

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Euro*)</u>
On each April 15 and October 15	
beginning April 15, 2011 through October 15, 2022	376,250

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\* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 3.10 of the General Conditions.

## **APPENDIX**

### **Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 15, 2006).
5. “Macedonian Railways” or “MR” means PE Macedonian Railways Unltd-Skopje, the entity in charge of all railways operations in the Guarantor’s territory and established as a public enterprise by the Guarantor’s Decision No. 21-4064/1 on November 22, 1989 and legally succeeded by MR Transport JSC – Skopje (hereinafter defined) and PE MR Infrastructure – Skopje (hereinafter defined).
6. “MR Transport JSC – Skopje” means the company in charge of railway transport of passengers and goods, established by the Guarantor’s Decision No. 19-2597/3 on May 8, 2007 as the legal successor of MR.
7. “MR Transport JSC – Skopje Amended and Restated Guarantee Agreement” means the Guarantee Agreement between the Guarantor and the Bank, of even date herewith.
8. “Operational Manual” means the manual satisfactory to the Bank and adopted by the Borrower referred to in Section 5.01(b) of this Agreement.
9. PCU” means the Borrower’s project coordination unit originally established within MR and jointly maintained by the Borrower and MR Transport JSC – Skopje, referred to in paragraph A.1, Section I of Schedule 2 to this Agreement.
10. “PE MR Infrastructure – Skopje” or “MR Infrastructure” means the Public Enterprise for railway Infrastructure, Macedonian Railways – Skopje, the entity in charge of railway infrastructure operations in the Guarantor’s territory and established by the Guarantor’s Decision No. 19-2597/2 on May 8, 2007 as the legal successor of MR.

11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
12. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated November 8, 2007 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.
13. “Railway Laws” means the Guarantor’s Law on Railways regulating the Guarantor’s railway sector adopted by the Guarantor and published in the Guarantor’s Official Gazette No. 64 dated August 3, 2005, the Amended Law on Railways published in the Guarantor’s Official Gazette No. 24, dated March 1, 2007, and the Law on Transformation of the Public Enterprise “Macedonian Railways” adopted by the Guarantor and published in the Official Gazette No. 29/05.
14. “Steering Committee” means the committee with membership, tasks, functions and responsibilities satisfactory to the Bank, established pursuant to the decision (Conclusion) of the Guarantor No. 23-4850/1 on January 10, 2005, as referred to in paragraph A.2, Section I of Schedule 2 to this Agreement.
15. “Training” means expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including: (i) fees of consultants, including educational or other institutions; and organizations providing training services; and (ii) cost of study tours, workshops, training incentives and related travel and per diem allowances of training participants.