

CONFORMED COPY

LOAN NUMBER 4352-0 HR

Loan Agreement

(Municipal Environmental Infrastructure Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 25, 1998

LOAN NUMBER 4352-0 HR

LOAN AGREEMENT

AGREEMENT, dated September 25, 1998, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Borrower).

WHEREAS (A) Republic of Croatia (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement, including the provision of grant funds for the Project to the EKO Kastelanski Zalijev (the EKO, as defined herein) and the Split Water and Sewerage Company (the SWSC, as defined herein) in the total amount of not less than DEM 100,300,000 equivalent;

(C) by an agreement dated December 9, 1996 (the EBRD Loan

Agreement), the European Bank for Reconstruction and Development (EBRD) has agreed to make a loan (the EBRD Loan) to the Borrower in an amount equal to seventy-four million six hundred forty thousand Deutsche Marks (DEM 74,640,000), to assist in financing Parts A.2, B.2, C.3 and C.4 of the Project on the terms and conditions set forth in the EBRD Loan Agreement;

(D) Parts A, B, C.2 and C.4 of the Project will be carried out by the EKO and Parts C.1 and C.3 of the Project will be carried out by the SWSC, with the Guarantor's and Borrower's assistance and, as part of such assistance, the Borrower will make available to the EKO and the SWSC the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank, and the EKO and the SWSC;

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 December 2, 1997) (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 and the following additional terms have the following meanings:

(a) "Beneficiary Municipalities" means the following cities of the Guarantor: Split, Solin, Kastela and Trogir;

(b) "Capital Adequacy Standards" means the International Convergence of Capital Measurements and Capital Standards adopted in July of 1988 by the Basle Committee on Banking Regulations and Supervisory Practices, and amended on November 6, 1991, as the same may be amended from time to time;

(c) "HBOR" means the Croatian Bank for Reconstruction and Development (Hrvatska Banka za Obnovu i Razvitak), established pursuant to the Law on Hrvatska Banka za Obnovu i Razvitak, dated June 5, 1992;

(d) "Deutsche Marks" and "DEM" each means the lawful currency of the Federal Republic of Germany;

(e) "EKO" means the Agency for the Implementation of the Kastela Bay Project (EKO Kastelanski Zaljev), an institution established pursuant to an agreement dated November 20, 1996, among the County of Splitsko-Dalmatinska, the Beneficiary Municipalities, and Hrvatske Vode or any successor thereto;

(f) "Environmental Mitigation Plan" means the plan of actions to be undertaken by the EKO to mitigate potential negative environmental consequences of the Project, described in the October 1996 Project environmental assessment report, as the same may be amended from time to

time;

(g) "Free Cash Flow" means earnings before depreciation, interest and tax paid, minus tax paid, decreased or increased by the change in the working capital, plus any proceeds of loans, minus capital expenditure;

(h) "Guarantee and Project Support Agreement(s)" means the agreement or agreements between the Borrower and the Beneficiary Municipalities, referred to in Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Guarantee and Project Support Agreement(s);

(i) "Hrvatske Vode" means the state agency of the Guarantor responsible for national water resource management, established pursuant to the Water Act of 1995 (Official Gazette No. 107/95);

(j) "Project Agreement" means the agreement between the Bank, and the EKO and the SWSC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(k) "Performance Enhancement Program" means the program of improving the operational, commercial, and financial performance of the SWSC;

(l) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(m) "Subloan" means a loan made or proposed to be made by the Borrower to the SWSC out of the proceeds of the Loan in connection with Parts A.1, B.1, C.1 and C.2 of the Project, and referred to in Section 3.01 (b) of this Agreement;

(n) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and the EKO and the SWSC pursuant to which the Borrower agrees to make the Subloan to the SWSC and assign certain Project implementation responsibilities to the EKO and the SWSC, in accordance with Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Subsidiary Agreement;

(o) "SWSC" means Split Water and Sewerage Company established by the Guarantor's cities of Split, Kastela, Solin, Trogir, Muc, Klis, Marina, Solta, Podstrana, Seget and Kastelanska Zagora pursuant to an agreement among such cities, entered into on March 2, 1998, or any successor thereto;

(p) "SWSC Corporate Development Plan" means the development plan outlining the SWSC's medium and long-term corporate strategy and development, and discussing, inter alia, the SWSC's future organizational structure and governance, its general financial and operational policies, and the main areas of the SWSC operational focus; and

(q) "Water and Wastewater Tariff" means the effective water and wastewater tariff accruing to and charged by the SWSC pursuant to the Law on Communal Tariffs, but specifically excluding, if applicable, Hrvatske Vode surcharges and value added taxes.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to sixty-five million Deutsche Marks (DEM 65,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A.1, B.1, C.1 and C.2 of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Deutsche Marks a special deposit account in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Deutsche Marks for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect

of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Guarantor and the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause the EKO and the SWSC to perform in accordance with the provisions of the Project Agreement all the obligations therein set forth, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the EKO and the SWSC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of Parts A.1, B.1 C.1 and C.2 of the Project, the Borrower shall relend to the SWSC the proceeds of the Loan allocated from time to time to Categories (1), (2), and (3) of the table in paragraph 1 of Schedule 1 to this Agreement (Subloan), and assign certain Project implementation responsibilities to the EKO and the SWSC, under a subsidiary agreement (the Subsidiary Agreement), which shall have been approved by the Bank, and which shall include, without limitation, the terms and conditions set forth in Schedule 6 to this Agreement.

(c) The Borrower shall enter into an agreement or agreements (the Guarantee and Project Support Agreement(s)) with the Beneficiary Municipalities, which shall have been approved by the Bank, and which shall provide the Borrower with financial, operational, environmental, legal, and other commitments related to the Project, and which shall include, without limitation, the terms and conditions set forth in Schedule 7 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Agreement and the Guarantee and Project Support Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and the Project, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement, or the Guarantee and Project Support Agreement, or any provision thereof.

Section 3.02. Without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall, except as the Borrower and Bank shall otherwise agree, carry out Parts A.1, B.1, C.1 and C.2 of the Project through the EKO and the SWSC in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect their operations and financial condition, and to register separately the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited, and (B) an opinion on such statements and a report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning

such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect the Borrower against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor and Deutsche Marks) used in its operations.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

(i) 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.

(ii) Debt shall be deemed to be incurred: (A) 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 (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between:

(A) the sum of revenues from all sources related to

operations and net non-operating income; and

(B) the sum of all expenses related to operations including 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.

(iv) The term "net non-operating income" means the difference between:

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

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

(v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(b) take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 5.02. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall, except as the Bank shall otherwise agree, submit during Project implementation

quarterly reports which shall include the following information concerning the Borrower:

- (a) the Borrower's risk adjusted capital adequacy ratio according to the Capital Adequacy Standards;
- (b) a report on all overdue loans itemized as to total, number of loans, and ratio to the Borrower's total loan portfolio or, if there are no overdue loans, a statement to that effect;
- (c) the aggregate amount of all contingent liabilities;
- (d) the aggregate amount and all details regarding all liens, pledges and encumbrances on the Borrower's assets as may be reasonably requested by the Bank;
- (e) cash flow statement and Free Cash Flow; and
- (f) the quarterly (unaudited) financial statements.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The SWSC and/or the EKO shall have failed to perform any of their obligations under the Project Agreement.

(b) As a result of events which shall have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the SWSC and/or the EKO will be able to perform their obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the EBRD Loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the EBRD Loan Agreement providing therefor, or

(B) the EBRD Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under the EBRD Loan Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement;

Section 6.02. Pursuant to Section 7.01 (k) of the General

Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph (c) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the provision of paragraph (c) (ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Agreement shall have been duly executed by the Borrower and the EKO and the SWSC, and all conditions precedent to its effectiveness have been fulfilled;

(b) the Guarantee and Project Support Agreement (s) shall have been executed between the Borrower and Beneficiary Municipalities, and all conditions precedent to its effectiveness have been fulfilled;

(c) the EKO shall have engaged consultants on terms of reference and with qualifications satisfactory to the Bank to assist it in procurement and financial management matters related to Project implementation; and

(d) the EKO and the SWSC shall have engaged an independent auditor or auditors referred to in Section 4.01(b) (i) of the Project Agreement.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by the EKO and the SWSC, and is legally binding upon the EKO and the SWSC in accordance with its terms;

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower, The EKO and the SWSC, and is legally binding upon the Borrower, the EKO and the SWSC in accordance with its terms; and

(c) that the Guarantee and Project Support Agreement has been duly authorized or ratified by the Borrower and Beneficiary Municipalities, and is legally binding upon the Borrower and Beneficiary Municipalities in accordance with its terms.

Section 7.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The President of the Board of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Croatian Bank for Reconstruction and Development
Gajeva 30a
10000 Zagreb
REPUBLIC OF CROATIA

Telex:

21249 HBOR RH

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:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
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 District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Arntraud Hartmann
Acting Regional Vice President
Europe and Central Asia

CROATIAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Anton Kovacev
Authorized Representative

By /s/ Miomir Zuzul
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category Financed	Amount of the Loan Allocated Expressed in DEM)	% of Expenditures to be
(1) Civil works for Parts A.1 and Part B.1 of the Project	35,000,000	75%
(2) Goods for Parts A.1, B.1 foreign expenditures, of the Project expenditures cost) and 85% of expenditures for other processed locally	20,000,000	100% of 100% of local (ex-factory local items
(3) Consultants' services for Parts A.1, B.1, C.1 and C.2 of the Project	5,000,000	100%
(4) Unallocated	5,000,000	
TOTAL	65,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts not exceeding \$300,000 equivalent; (ii) except for the first two contracts, works under contracts not exceeding \$2,000,000 equivalent; and (iii) services provided by consulting firms and individuals under contracts not exceeding \$100,000 and \$50,000 equivalent, respectively, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) reduce municipal wastewater discharges into the environmentally sensitive Kastela and Trogir Bays consistent with Croatian environmental-standards and environmental standards of the European Union; (b) improve the safety, reliability, and delivery of drinking water in the Project area; and (c) improve the operational and financial performance of the SWSC.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Wastewater

1. Design and construction of the Split-Solin wastewater transmission mains, pumping stations, tunnel at Stupe, wastewater treatment plant at Stupe, and submarine outfall at Stobrec for discharge into the Brac Channel.

2. Design and construction of the Kastela-Trogir wastewater transmission mains, pumping stations, tunnel, treatment plant, and submarine outfall, for discharge into the Split Channel.

Part B: Water Supply

1. Upgrading of the water transmission and distribution network consisting of transmission mains at Kastela, pumping station, reservoir and delivery supply pipeline at Sv. Kajo, reservoir and delivery supply pipeline at Sucurac, and pumping station and pipeline at Solin.

2. Upgrading of the water supply subsystems at Ravne Njive and Kunceva Grada.

Part C: Institutional Strengthening

1. Institutional strengthening of the SWSC and technical assistance in the preparation and implementation of the Performance Enhancement Program, through the provision of consultants' services, accounting and auditing services and goods.

2. Strengthening the financial management, procurement and project implementation capability of the EKO, through the provision of consultants' services, accounting and auditing services and goods.

3. Preparation and implementation of the SWSC Corporate Development Plan, through the provision of consultants' services.

4. Monitoring the impact of discharging wastewater into the Kostela and Trogir Bays, and the Split and Brac Channels, through the provision of laboratory and testing equipment.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Amortization Schedule

Payment of Principal

Date Payment Due
Marsk)*

(expressed in Deutsche

On each May 15 and November 15

beginning November 15, 2003	3,250,000
through November 15, 2012	3,250,000

and on May 15, 2013

* The figures in this column represent the amount in Deutsche Marks to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

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

(b) not later than March 31 and September 30 of each fiscal year during the Project, prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, based on the results of the monitoring and evaluation activities performed pursuant to paragraph 1 (a) of this Schedule, a report (Semi-annual Report) of such scope and detail as the Bank shall reasonably request, describing the progress achieved in the carrying out of the Project during the preceding six (6) months, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the following six (6) months;

(c) review with the Bank, by April 30 and October 31 of each fiscal year during the Project, or such later date as the Bank shall request, the Semi-annual Reports, 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;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2000, a report

(Mid-term Report) integrating the results of the monitoring and evaluation activities performed pursuant to paragraphs 1 (a), (b) and (c) of this Schedule, 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

(e) review with the Bank, by October 31, 2000, or such later date as the Bank shall request, the Mid-term Report, 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.

2. For each fiscal year of the Borrower during the Project, the Borrower shall:

(a) maintain policies and procedures adequate to enable them to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Bank, the general operations and financial condition of the EKO and the SWSC, and to make medium-term (1-2 year) projections related thereto;

(b) by March 31 each such fiscal year, prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, a report integrating the results of the monitoring, evaluation activities, and projections performed pursuant to paragraph 2 (a) of this Schedule; and

(c) review with the Bank, by April 30 for each such fiscal year, or such later date as the Bank shall request, the report referred to in paragraph 2 (b) of this Schedule, and, thereafter, take all remedial measures required to address any material deficiencies determined under such monitoring and review.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for Parts A.1, B.1, C.1 and C.2 of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equal to DEM 1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to DEM 400,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to

or exceeding DEM 6,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of

Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Terms and Conditions of the Subloan and Subsidiary Agreement

1. The Subloan shall: (i) be denominated (principal and interest) in Deutsche Marks; (ii) carry an interest rate equal to the rate payable by the Borrower to the Bank under Section 2.05 of this Agreement, plus a margin adequate to cover the reasonable incremental administrative expenses of the Borrower on account of the Subloan, but not exceeding one-quarter (1/4) of one percent; (iii) be issued for a maximum maturity period of 15 years, with up to 5 years grace period for the repayment of the principal of the Subloan.

2. The Subsidiary Agreement shall require, inter alia, that the SWSC and/or the EKO, as applicable:

(a) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including insurance covering hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Subloan to the place of use or

installation, any indemnity thereunder to be made payable in a currency freely usable by the SWSC to replace or repair such goods;

(b) assume the foreign exchange risk between the DEM and the currency of the Borrower;

(c) contribute funds, from amounts generated internally, for the Project equal to or not less than twenty (20) percent of the total cost of the Project, net of any taxes, duties, or levies;

(d) open, by the date on which the EKO and the SWSC shall enter into the Subsidiary Agreement, and thereafter maintain, a separate account (the Local Project Account) in a commercial bank under terms and conditions satisfactory to the Borrower and the Bank, and deposit and maintain in such Local Project Account, during the life of the Project, an amount sufficient to pay for Sub-project related expenditures projected to be required during the following three (3) months;

(e) utilize the amounts deposited into the said Local Project Account exclusively to finance the respective costs of carrying out the Project and to meet the SWSC's repayment obligations under the Subsidiary Agreement;

(f) (i) ensure that for each of the SWSC's fiscal years during Project implementation, the SWSC projected operating revenues are sufficient to meet its projected expenses for that fiscal year;

(ii) by or before March 31 of each of the SWSC's fiscal years during Project implementation, the SWSC and Beneficiary Municipalities shall review, on the basis of forecasts prepared by the SWSC and satisfactory to the Bank, whether the SWSC would be able to meet the requirements set forth in paragraph (f) (i) above in respect of such year and the next following fiscal year, and shall furnish to the Borrower and the Bank a copy of such review upon its completion;

(iii) if any such review shows that the SWSC would not meet the requirements set forth in paragraph (f) (i) for the SWSC's fiscal years covered by such review, the SWSC shall promptly take, and ensure that the Beneficiary Municipalities take, all necessary measures (including, without limitation, adjustments of the structure or level of its rates) in order to meet such requirements; and

(iv) for the purposes of this subparagraph (f):

(A) the term "projected operating revenues" means the sum of collected revenues from all sources related to operations, consumer deposits, operating subsidies received by the SWSC, and consumer contributions in aid of construction;

(B) the term "projected operating expenses" means all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), interest payable on all debt related to the SWSC's operations, and the larger of the depreciation allocation or loan amortization, all cash dividends and other cash

distributions of surplus, and other cash outflows other than capital expenditures;

(C) the term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends;

(D) the term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations; and

(E) whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

(g) (i) ensure that the SWSC does not incur any new debt unless a reasonable forecast of the SWSC's revenues and expenditures shows that the estimated net revenues of the SWSC for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of the SWSC in such year on all debt of the SWSC, including the debt to be incurred;

(ii) For the purposes of this paragraph:

(A) The term "debt" means any indebtedness of the SWSC 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:

(aa) 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

(bb) 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:

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

(bb) the sum of all expenses related to operations including 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:

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

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

(E) The term "debt service requirements" means the
aggregate amount of repayments
(including sinking fund payments, if any) of, and interest
and other charges on, debt.

(F) The term "reasonable forecast" means a forecast
prepared by SWSC not earlier than twelve
(12) months prior to the incurrence of the debt in
question, which the Bank, the Borrower and SWSC accept as reasonable and
as to which the Bank has notified the Borrower and
SWSC of its acceptability, provided that no
event has occurred since such
notification which has, or may reasonably be expected in the future to
have, a material adverse effect on the financial
condition or future operating results of
SWSC.

(G) Whenever for the purposes of this paragraph it
shall be necessary to value, in terms of
the currency of the Guarantor, debt payable in
another currency, such valuation shall be made on the basis of the
prevailing lawful rate of exchange at
which such other currency is, at the time of such
valuation, obtainable for the purposes of servicing
such debt, or, in the absence of such rate, on the basis of a rate
of exchange acceptable to the Bank.

(h) prepare by December 31, 1999, the Performance Enhancement
Program and implement the Performance Enhancement Program according to a
time schedule to be specified in said program;

(i) prepare and promptly furnish to the Borrower all such
information as the Borrower or the Bank shall reasonably request relating
to the administration, operations and financial condition of the SWSC, to
the benefits to be derived from the Project;

(j) maintain the EKO and the SWSC in a legal form satisfactory
to the Borrower;

(k) within the time specified in the Subsidiary Agreement, the
Beneficiary Municipalities and the SWSC shall complete and agree upon an
action plan, satisfactory to the Borrower and Bank, to improve the
operation and management of the SWSC, which shall include a description
of specific measures and target dates for strengthening of the
organization, management, financial, commercial, technical and investment
planning and evaluation capacity of the SWSC;

(l) give the Borrower the right to suspend or terminate the

right of the SWSC or the EKO to the use of the proceeds of the Subloan upon failure by such party to perform its obligations under the Subsidiary Agreement; and

(m) at the conclusion of the Project, submit to the Borrower, in a manner and by date satisfactory to the Borrower and the Bank, a Project completion report.

3. The Subsidiary Agreement shall be subject to the following conditions of effectiveness:

(a) a Local Project Account has been opened and an amount equivalent to Project related expenditures projected to be required during the following three (3) months and due from the SWSC and/or Beneficiary Municipalities, has been deposited into the Local Project Account; and

(b) a legal opinion satisfactory to the Borrower has been issued certifying that the Subsidiary Agreement has been duly executed, delivered and authorized or ratified by all necessary corporate actions of the EKO and the SWSC, and that such agreement is legally valid and binding on the parties thereto in accordance with its terms.

SCHEDULE 7

Terms and Conditions of the Guarantee and Project Support Agreement

1. The Borrower shall obtain, by the Guarantee and Project Support Agreements with the Beneficiary Municipalities referred to in Section 3.01(c) of this Agreement, rights adequate to protect the interests of the Bank, Borrower, the SWSC, and the EKO, as such interests relate to Project objectives and implementation, which shall require the Beneficiary Municipalities to:

(a) take steps necessary to ensure that the Water and Wastewater Tariff levels are sufficient to meet the requirements of this Agreement and Subsidiary Agreement; and ensure that the SWSC properly adopts and implements such Water and Wastewater Tariff;

(b) take steps to cause and enable the SWSC to prepare the Performance Enhancement Program, and implement it according to an agreed schedule thereafter;

(c) in the event of shortage of financing required for timely and efficient implementation of the Project, provide, promptly as needed, the funds and other resources as may be necessary for the timely implementation of the Project;

(d) provide, promptly as needed, all permits, licenses, and authorizations in regard to Project-related land acquisition or usage, and facilities construction; and

(e) cause and enable the preparation of an Environmental Mitigation Plan, satisfactory to the Bank, by December 31, 1998.



