

CONFORMED COPY

LOAN NUMBER 4284 MK

Guarantee Agreement

(Power System Improvement Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA (the Guarantor)

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank)

Dated May 20, 1998

LOAN NUMBER 4284 MK

GUARANTEE AGREEMENT

AGREEMENT, dated May 20, 1998, between the Guarantor and the Bank.

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

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan equal to sixty-one million five hundred thousand Deutsche Marks (DEM 61,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

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

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

## ARTICLE II

### Guarantee; Provision of Funds

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

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

## ARTICLE III

### Other Covenants

Section 3.01. The Guarantor and the Bank shall, from time to time, at the request of either party, exchange views with regard to the Guarantor's electricity tariff policies and its plans in respect of the overall development of the energy sector.

Section 3.02. The Guarantor shall:

(a) within one year of the value date of the first disbursement from the Loan Account, establish an average level of electricity prices in accordance with a methodology to be adopted by the Government of the Guarantor pursuant to the provisions of the Energy Law, which shall, in any event be not less than the equivalent of 7.5 pfennigs per kilowatt hour; and

(b) thereafter, maintain electricity prices at a level which shall be not less than the higher of (i) 7.5 pfennigs per kilowatt hour; and (ii) the level required under Section 3.03 of this Agreement.

Section 3.03. Notwithstanding the provisions of Section 3.02 of this Agreement, the Guarantor shall ensure that the average price level for electricity is set at all times at such level as to enable the Borrower to comply with the financial covenants set out in Sections 4.02, 4.03 and 4.04 of the Loan Agreement, each as calculated in a manner satisfactory to the Bank.

Section 3.04. The Guarantor shall, by December 31, 1999, acting in conjunction with the Borrower, establish a new least-cost electricity supply plan acceptable to the Bank.

Section 3.05. The Guarantor shall, by December 31, 1998, adopt regulations under the Energy Law, acceptable to the Bank, governing the operations of IPPs in the

territory of the Guarantor.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Minister of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Ministry of Finance  
Dame Gruev 14  
91000 Skopje

Telex:

51119

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI)  
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 Skopje as of the day and year first above written.

THE GUARANTOR

By /s/ Taki Fiti

Authorized Representative

THE BANK

By /s/ Ajay Chhibber

