

CONFORMED COPY

LOAN NUMBER 4284 MK

Loan Agreement

(Power System Improvement Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

ELECTROSTOPANSTVO NA MAKEDONIJA

Dated May 20, 1998

LOAN NUMBER 4284 MK

LOAN AGREEMENT

AGREEMENT, dated May 20, 1998 between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the ELECTROSTOPANSTVO NA MAKEDONIJA (the Borrower).

WHEREAS (A) 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;

(C) by an agreement dated July 25, 1995 (the Swiss Grant Agreement), the Government of the Swiss Confederation (Switzerland) has agreed to make a grant to the Borrower in a principal amount equal to five million Swiss francs (CHF 5,000,000) to assist in financing Part A of the Project on the terms and conditions set

forth in the Swiss Grant Agreement;

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;

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 below (the General Conditions) constitute an integral part of this Agreement:

Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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) "Deutsche Mark" and "DEM" mean the lawful currency of the Federal Republic of Germany, but if such currency shall be replaced with the Euro, then "Deutsche Mark" and "DEM" shall be replaced by "Euro" for purposes of the Loan, at the ratio in effect as of the date of such replacement;

b) "Energy Law" means the Law on Energy of the Guarantor published in the Official Gazette on September 19, 1997;

(c) "IPP" means an independent power producer which is not owned or controlled by the Borrower;

(d) "Kozjak Dam and Powerhouse" means the dam and powerhouse to be located at Kozjak on the Treska river;

(e) "Mavrovo Dam" means the dam located at Mavrovo in the territory of the Guarantor;

(f) "National Dispatch Center" means the national dispatch center of the Borrower;

(g) "pfennig" means a sub-unit of a Deutsche Mark;

(h) "Project Implementation Unit" and "PIU" mean the Project implementation unit established within the Borrower;

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

(j) "Statutes" means the statutes of the Borrower, adopted by its Board of Directors on October 24, 1996; and

(k) "UCPTE" means the Union for the Coordination of Production and Transmission of Electricity established for the Western European electricity network.

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-one million five hundred thousand Deutsche Marks (DEM 61,500,000).

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 and services required for 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 bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank including appropriate protection against set-off, seizure, and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 February 15 and August 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, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods 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 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 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 maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) commencing with its fiscal year 1998, have its balance sheet based on revalued fixed assets;

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

(iii) 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) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iv) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall 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, in accordance with paragraph (a) of this Section, records and 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 or payment out of the Special 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. (a) Except as the Bank shall otherwise agree, the Borrower shall, for each of its fiscal years commencing with fiscal year 1998, generate funds from internal sources equivalent to not less than 30% of the annual average of the Borrower's annual capital expenditures incurred, or expected to be incurred, for that year, and the next following fiscal year.

(b) Before April 30 of each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the next following fiscal year and shall furnish to the Bank a copy of such review upon its completion.

(c) If the Borrower intends to undertake any capital expenditure for the construction of new hydro power projects prior to the commissioning of the Kozjak Dam and Powerhouse, the Borrower shall, before undertaking such expenditure, provide evidence satisfactory to the Bank that it would continue to meet the requirements set forth in paragraph (a) of this Section after having undertaken such expenditure.

(d) If any review specified in paragraphs (b) and (c) of this Section shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures in order to meet such requirements.

(e) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of (m) revenues from all sources related to operations,

non-refundable consumer deposits and consumer contributions in aid of construction, (n) net non-operating income and (o) any reduction in working capital other than cash; and

- (B) the sum of all expenses related to operations, including (x) administration, maintenance, taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), (y) debt service requirements and (z) any cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
- (ii) 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 such revenues.
 - (iii) The term "working capital other than cash" means the difference between (a) current assets excluding cash and (b) current liabilities at the end of each fiscal year.
 - (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within 12 months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.
 - (v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within 12 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
 - (vi) 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.
 - (vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets.
 - (viii) Whenever for the purposes of this Section and Sections 4.03 and 4.04 of this Agreement 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, lawfully

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.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall, for each of its fiscal years commencing with fiscal year 1998, generate net revenues for each fiscal year equivalent to at least 1.5 times the debt service requirements of the Borrower in such year on all debt of the Borrower, including this Loan.

(b) Before April 30 of each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section and furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that the Borrower will not meet the requirements set forth in paragraph (a) of this Section for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "debt" means the aggregate (as of the date of calculation) of all obligations of the Borrower then outstanding (other than short-term indebtedness which matures by its terms one year or less after the date on which it was originally incurred) for the payment or repayment of money, including, without limitation:
 - (A) any amount payable by the Borrower under leases or similar arrangements over their respective periods;
 - (B) any credit to the Borrower from a supplier of goods or under any installment purchase or other similar arrangements; and
 - (C) the aggregate amount then outstanding of liabilities and obligations of third parties to the extent that they are guaranteed by the Borrower.
- (ii) 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.
- (iii) The terms "net non-operating income" and "debt service requirements" shall have the meanings ascribed to them in Section 4.02 of

this Agreement.

Section 4.04. (a) Except as the Bank shall otherwise agree the Borrower shall, by December 31, 1998, achieve and thereafter maintain a ratio of current assets to current liabilities of not less than 1.2:1.

(b) Before April 30 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) of this Section for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within 12 months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(ii) The terms "current liabilities" and "debt service requirements" shall have the meanings ascribed to them in Section 4.02 of this Agreement.

Section 4.05. (a) The Borrower shall take all action required on its part to reduce its accounts receivable following a methodology acceptable to the Bank so as to ensure that, by December 31, 2002, its accounts receivable do not exceed 18 percent (18%) of its gross operating revenues.

(b) For the purposes of this Section, the term "gross operating revenues" means the sum of revenues from all sources related to operations.

Section 4.06. (a) The Borrower shall increase its prices to, and maintain them at the levels established by the Guarantor in accordance with Section 3.02 of the Guarantee Agreement.

(b) The Borrower shall take all action required on its part to establish, prior to December 31, 1999, a new least cost electricity supply plan acceptable to the Bank.

Section 4.07. The Borrower shall not accept any payment for electricity supplied in the form of shares unless the aggregate of such payments in any fiscal year does not exceed five percent of the Borrower's annual gross operating revenues (as such term is defined in Section 4.05 of this Agreement).

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

(a) carry on its operations and conduct its affairs in

accordance with sound administrative, financial, public utility, engineering and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers;

(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, environmental and dam safety practices; and

(c) 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.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) the Statutes shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement; and

(b) (i) subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant 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 agreement providing therefor; and

(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 such 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 (h) of the General Conditions, the following additional event is specified namely that: the event specified in Section 6.01(a) 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.

ARTICLE VII

Termination

Section 7.01. 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 General Manager 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:

Electrostopanstvo na Makedonija
11 Oktomvri 9
91000 Skopje

For the Bank:

International Bank for
Reconstruction and Development

1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

ELECTROSTOPANSTVO NA MAKEDONIJA

By /s/ M. Trpkoski
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ajay Chhibber
Regional Vice President
Europe and Central Asia

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:

Expenditures Category	Amount of the Loan Allocated (Expressed in Deutsche Marks)	% of to be
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Financed

(1)	Equipment under foreign supply and install expenditures contracts	37,400,000	100% of
(2)	Goods foreign expenditures, 100% local expendi- (ex-factory and 85% of expenditures other items procured locally	15,000,000	100% of tures cost) local for
(3)	Consultants' services	600,000	100%
(4)	Unallocated	8,500,000	
	TOTAL	61,500,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of DEM1,500,000 may be made on account of payments made for expenditures before that date but after November 3, 1997.

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 and equipment under supply and install contracts, under contracts not exceeding \$250,000 equivalent each; and (ii) services under contracts with consultant firms costing less than \$100,000 equivalent each and contracts with individual consultants costing less than \$50,000 equivalent each, 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: (i) increase the efficiency of hydro-power generation; (ii) expand the generating capacity of major hydro-power plants; (iii) increase system operating efficiency of the power generation and transmission facilities; (iv) reduce losses in the electricity distribution

system; (v) facilitate the development of an independent power plant industry; and (vi) facilitate the re-integration of the Borrower into UCPTE.

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: Hydro-power Plant Rehabilitation

Rehabilitation of six major hydro-power plants of the Borrower, including any necessary strengthening of the Mavrovo Dam, through the provision of equipment and technical assistance and the carrying out of works.

Part B: Energy Management System

Improvement of the Energy Management System of the Borrower through:

- (i) installation and implementation of new remote control and data acquisition units for the power system;
- (ii) provision of hardware and software to strengthen the supervisory control of the National Dispatch Center; and
- (iii) installation of communication links including the provision of primary and secondary network equipment.

Part C: Electricity Distribution System

Rehabilitation of the electricity distribution system through the installation of power and distribution transformers.

* * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Amortization Schedule

Principal Date Payment Due Deutsche Marks)	Payment of (expressed in
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The figures in this column represent the amounts in Deutsche Marks to be repaid except as provided in Section 4.04 (d) of the General Conditions.

August 15, 2002	1,560,000
February 15, 2003	1,590,000
August 15, 2003	1,620,000
February 15, 2004	1,645,000
August 15, 2004	1,675,000
February 15, 2005	1,705,000
August 15, 2005	1,740,000
February 15, 2006	1,770,000
August 15, 2006	1,800,000
February 15, 2007	1,835,000
August 15, 2007	1,870,000
February 15, 2008	1,900,000

August 15, 2008	1,935,000
February 15, 2009	1,970,000
August 15, 2009	2,005,000
February 15, 2010	2,045,000
August 15, 2010	2,080,000
February 15, 2011	2,120,000
August 15, 2011	2,155,000
February 15, 2012	2,195,000
August 15, 2012	2,235,000
February 15, 2013	2,275,000
August 15, 2013	2,320,000
February 15, 2014	2,360,000
August 15, 2014	2,405,000
February 15, 2015	2,445,000
August 15, 2015	2,490,000
February 15, 2016	2,535,000
August 15, 2016	2,580,000
February 15, 2017	2,640,000
TOTAL	61,500,000

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods and equipment under supply and install contracts shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and equipment under supply and install contracts shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and equipment under supply and install contracts to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods and equipment under supply and install contracts shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods and equipment manufactured in the territory of the Guarantor.

Part C: Other Procurement Procedures

International Shopping

Goods and equipment under supply and install contracts estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods or equipment under supply and install contracts estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods or equipment under supply and install contracts awarded in accordance with the provisions of Parts C1 and C2 of this Schedule, the following procedures shall apply:

- (i) prior to the selection of any supplier prior to the execution of any contract under shopping procedures the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract;
- (iii) in addition, the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget.

Services under Part B of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Single Source Selection.

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants.

Services under Part A of the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall, throughout Project implementation, maintain the Project Implementation Unit with a Director and key staff, with qualifications, experience and terms of reference acceptable to the Bank.

2. (a) The Borrower shall complete studies on the safety of the Mavrovo Dam being carried out by the University of Skopje and other national universities under studies funded by the Borrower, and shall undertake, on the basis of guidelines acceptable to the Bank, and complete not later than December 31, 1998, any rehabilitation works on the Mavrovo Dam agreed with the Bank.

(b) The Borrower shall, under arrangements satisfactory to the Bank, (i) maintain the Mavrovo Dam, the dams located at Tikves, Globocica, and Spilje, and related infrastructure works (the Dams); (ii) take all necessary action to ensure the safe condition of the Dams; and (iii) cause the Dams to be periodically inspected by experts with qualifications, experience, resources and terms of reference acceptable to the Bank in accordance with sound engineering practices acceptable to the Bank.

3. 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) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about October 31, 2000, a 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 December 31, 2000, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, 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 views on the matter.

SCHEDULE 6

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 and services required for 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 equivalent to DEM 4,500,000 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 equivalent to DEM 1,000,000 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 exceed the equivalent of 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 para-graph 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 respective 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.

