

CONFORMED COPY

LOAN NUMBER 4352-0-HR

Guarantee Agreement

(Municipal Environmental Infrastructure Project)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 25, 1998

LOAN NUMBER 4352-0 HR

GUARANTEE AGREEMENT

AGREEMENT, dated September 25, 1998, between Republic of Croatia (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and Croatian Bank for Reconstruction and Development (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 in Deutsche Marks equivalent to sixty-five million Deutsche Marks (65,000,000 DEM), on the terms and conditions set forth in the Loan Agreement, and by the Project Agreement of even date herewith between the Bank and the EKO Kastelanski Zaljev (the EKO) and Split Water and Sewerage Company (the SWSC), the EKO and the SWSC have agreed to undertake the obligations set forth in the Project Agreement, but only on condition that the Guarantor agrees to: (a) guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and (b) provide grant funds for the Project as provided herein; 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 and to provide grant funds for the Project as provided herein;

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 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.

Section 2.03. Without limitation or restriction upon the provisions of Section 2.01 and Section 2.02 of this Agreement, the Guarantor specifically undertakes to provide to the SWSC and the EKO grant funds for the financing of the Project in the amount of not less than DEM 100,300,000 equivalent, such funds to be provided from the Guarantor's central government budget and the Hrvatske Vode's funds.

ARTICLE III

Representative of the Guarantor; Addresses

Section 3.01. 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 3.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Ministry of Finance
Katanciceva 5
10000 Zagreb
REPUBLIC OF CROATIA

Telex:

862-21215862-21833

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 the District of Columbia, United States of America as of the day and year first above written.

REPUBLIC OF CROATIA

By /s/ Miomir Zuzul

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Arntraud Hartmann

Acting Regional Vice President
Europe and Central Asia

