

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4704 BUL

Guarantee Agreement

(District Heating Project - Sofia)

between

REPUBLIC OF BULGARIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 18, 2003

LOAN NUMBER 4704 BUL

GUARANTEE AGREEMENT

AGREEMENT, dated June 18, 2003, between REPUBLIC OF BULGARIA (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and TOPLOFIKACIA SOFIA (the Borrower), having been satisfied as to the feasibility and priority of the project described in Schedule 2 to the Loan Agreement (the Project), 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 the amount of twenty six million Euro (€26,000,000), 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 (as amended through October 6, 1999), (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 and the term "Energy Strategy" means the Guarantor's strategy for the energy sector, approved by the Council of Ministers' Decision No. 279 of May 11, 2002, and adopted by Parliament on July 17, 2002.

ARTICLE II

Guarantee

Section 2.01. The Guarantor declares its commitment to the objectives of Part A 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 within its powers, the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

ARTICLE III

Other Covenants

Section 3.01. As long as the Borrower's FRP is being implemented, the Guarantor specifically undertakes, within its powers, 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 assistance as is needed to meet such expenditures.

Section 3.02. The Guarantor shall, through its Ministry of Energy and Energy Resources, take all measures necessary on its part for the implementation of the district heating component of the Energy Strategy consistent with the satisfactory implementation of the Project.

Section 3.03. The Guarantor shall, within its powers under applicable Bulgarian law, agree to progressively increase the ceilings of the household heating prices to achieve the tariffs approved by the Guarantor's Energy Regulator for the Borrower.

Section 3.04. The Guarantor shall, through its Ministry of Finance and Ministry of Energy and Energy Resources, supervise the implementation of the FRP by the Borrowers and ensure that all necessary measures to comply with said plans are taken in a timely manner.

Section 3.05. The Guarantor, through its Ministry of Labor and Social Policy, shall implement the Guarantor's Energy Benefits Program as per the Regulation dated

November 11, 1998 on the Enforcement of Social Assistance Law promulgated on May 19, 1998 aimed at mitigating the social impacts of increased electricity and heating tariffs and shall review and adjust such program, as appropriate, to take into account the increase in district heating tariffs.

Section 3.06. The Guarantor shall ensure that all necessary permits and authorizations to carry out the Project shall be delivered to the Borrower by the appropriate authorities in a timely manner.

Section 3.07. The Guarantor shall adopt or cause to be adopted, all regulations which are necessary or appropriate to achieve the purpose of the Project in accordance with the laws of the Republic of Bulgaria.

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:

Minister of Finance
Ministry of Finance
102 Rakovski St
1040 Sofia
Republic of Bulgaria

Telex

22727

Facsimile:

359 2 980 6863

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Sofia, Republic of Bulgaria, as of the day and year first above written.

REPUBLIC OF BULGARIA

By /s/ Milen Velchev

Authorized Representative

INTERNATIONAL BANK FOR
**RECONSTRUCTION AND
DEVELOPMENT**

By /s/ Andrew N. Vorkink

Director
South Central Europe Country Unit
Europe and Central Asia