

CONFORMED COPY

LOAN NUMBER 3068-3 YU

(Seventh Railway Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

RAILWAY TRANSPORT ENTERPRISE ZAGREB

and

COMMUNITY OF YUGOSLAV RAILWAYS

Dated November 13, 1990

LOAN NUMBER 3068-3 YU

LOAN AGREEMENT

AGREEMENT, dated November 13, 1990, among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and RAILWAY TRANSPORT ENTERPRISE ZAGREB (the Borrower) and the COMMUNITY OF YUGOSLAV RAILWAYS (CYR).

WHEREAS (A) Socialist Federal Republic of Yugoslavia (the Guarantor), the Borrower and CYR, 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) the Borrower intends to contract from the following

external sources of finance (the Cofinanciers) loans in the following amounts to assist in the financing of part of the Project on the terms and conditions set forth in agreements (the Cofinancing Agreements) to be entered into between the Borrower and the Cofinanciers: (i) the European Investment Bank (EIB): ECU 18,000,000; and Eurofima: \$29,900,000;

(D) Socialist Republic of Croatia (the Republic) has undertaken to provide to the Borrower such funds (the Local Funds) as are needed to meet the estimated expenditures required for the carrying out of the Project through the period ending December 31, 1990, all in accordance with the Republic's Law on the Provision of Funds for the Borrower published in the Official Gazette of the Republic No. 13, dated April 1, 1986; and the Borrower intends to secure from the Republic further undertakings to provide to the Borrower such additional funds (the Additional Funds) as are needed to meet the estimated expenditures required for the carrying out of the Project after December 31, 1990; 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;

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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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) "CYR" means the Community of Yugoslav Railways, a business association established and operating pursuant to the Guarantor's Law on Association in the Community of Yugoslav Railways published in the Guarantor's Official Gazette No. 18/78, and Statutes adopted on September 7, 1981, as the same may be amended from time to time;

(b) "Action Plan" means the Borrower's 1990-1993 plan of action for the development and improvement of its railway activities set forth or referred to in Schedule 6 to this Agreement, as the same may be revised from time to time in accordance with the provisions of Section 4.02 of this Agreement;

(c) "Railway Investment Plan" means the Borrower's priority investment program for the 1990-1991 period set forth in Schedule 7 to this Agreement, as the same may be revised from time to time in accordance with the provisions of Section 5.05 of this Agreement;

(d) "Basic Legislation" means the Guarantor's Law on Enterprises published in the Guarantor's Official Gazette Nos. 77/88, dated December 31, 1988, and 40/89, dated July 7, 1989, and the Republic's Law on Railways, as amended, published in the Republic's Official Gazette Nos. 18/79, dated April 30, 1979, 4/81, dated February 3, 1981, 20/84, dated May 29, 1984 and 57/89, dated December 30, 1989, pursuant to which the Borrower has been established and is operating, as the same may be amended from time to time; and

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

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, various currencies that shall have an aggregate value equivalent to the amount of thirty-two million five hundred thousand dollars (\$32,500,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 a special account in a currency and a commercial bank satisfactory 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 December 31, 1992 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower, CYR 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semi-annually on February 1 and August 1 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. 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 (a) with due diligence and efficiency, (b) in accordance with the Action Plan and (c) in conformity with appropriate administrative, financial, engineering and railway practices, and shall provide, 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.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and railway practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. Without limitation on the generality of the provisions of Sections 3.01 and 4.01 of this Agreement, the Borrower shall:

- (a) take all measures necessary to ensure that the Action Plan shall be carried out with due diligence and efficiency;
- (b) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators satisfactory to the Bank, the carrying out of the Action Plan;
- (c) prepare and furnish to the Bank not later than May 31 of each year a report, in form and substance satisfactory to the Bank, on the conclusions and recommendations indicated by the monitoring and evaluation activities performed during such year pursuant to paragraph (b) of this Section, including any proposed revisions to be introduced into the Action Plan; and thereafter, promptly introduce such revisions into the Action Plan as shall have been agreed between the Bank and the Borrower; and
- (d) take all action necessary on its part in order to enable CYR to comply with its obligations under Section 6.02 of this Agreement.

Section 4.03. The Borrower shall at all times operate and maintain its railway network, plants, machinery, equipment, installations 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 and railway practices.

Section 4.04. The Borrower shall 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 V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

- (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

appropriate auditing principles 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 months after the end of each such year (A) certified copies of its financial statements 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
- (iii) 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 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 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall: (i) increase its domestic tariffs on October 1, 1990 (A) by at least (1) the change in the Producer Price Index during the calendar year 1989, minus the aggregate increase in said tariffs during said year, (2) by the change in the Producer Price Index during the first three quarters of 1990, minus the aggregate increase in said tariffs during said period, and (3) by 50% of the estimated change in said Index during the fourth quarter of 1990, and (B) by an additional 6%; (ii) increase its domestic tariffs on January 1, 1991 and thereafter on the first day of each quarter of each of its fiscal years by at least (A) the change in the Producer Price Index during the previous quarter, and (B) by 50% of the estimated change in said Index during the present quarter; and (iii) at all times maintain a ratio of unit revenue from domestic passenger traffic to unit revenue from domestic freight traffic equal to at least the ratio of unit revenue from domestic passenger traffic to unit revenue from domestic freight traffic for the fourth quarter of its fiscal year 1988; all as shall be calculated on the basis of a methodology satisfactory to the Bank.

(b) For purposes of this Section:

- (i) the term "Producer Price Index" means the producer price index for industrial goods published monthly by the Federal Bureau of Statistics of the Guarantor (Savezni zavod za Statistiku); and

- (ii) the term "estimated change in the Producer Price Index" means the change in said Index during the most recent period of three consecutive months for which said Index has been published.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years after its fiscal year ending on December 31, 1990, a ratio of total operating expenses to total operating revenues not higher than 110%.

(b) Before September 1 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 (including, without limitation, adjustments to the structure or levels of domestic passenger and freight tariffs charged by the Borrower) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, provision for depreciation of assets as revalued from time to time on a basis acceptable to the Bank, but excluding interest, and other charges on debt.
- (ii) The term "total operating revenues" means revenues from all sources related to operations, including all amounts paid by the Republic to the Borrower for the provision of services by the Borrower at concessionary tariffs pursuant to agreements providing for the payment to the Borrower of the difference between the cost of said services and the revenues generated through the concessionary tariffs, as calculated on the basis of criteria satisfactory to the Bank, but excluding all payments made to the Borrower by the Republic, including, inter alia, payments made in respect of railway infrastructure maintenance and payments made pursuant to the Guarantor's Law on the Basic Principles of the System of Prices and the Social Control of Prices published in the Guarantor's Official Gazette No. 83/89, and the Law on Compensation published in the Guarantor's Official Gazette No. 11/80, as the same may be amended from time to time.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt (other than a debt incurred for the financing of the Project) 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 1.4 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 (calculated in respect of loans in the currency of the Guarantor, on the basis of real annual interest rates, and in respect of loans in currencies of countries other than that of the Guarantor, on the basis of nominal interest rates), 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) The term "real annual interest rate" means the nominal annual interest rate on the debt minus the rate of increase in the Producer Price Index during the preceding twelve months.
- (viii) The term "Producer Price Index" means the producer price index for industrial goods published monthly by the Federal Bureau of Statistics of the Guarantor (Savezni zavod za Statistiku).
- (ix) 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.

Section 5.05. (a) The Borrower shall:

- (i) carry out the Railway Investment Plan with due diligence and efficiency, and in accordance with sound administrative, financial, economic, engineering and railway practices;
- (ii) prepare and furnish to the Bank not later than November 15 of each of its fiscal years the following information, of such scope and in such detail as the Bank shall reasonably request: (A) a report on the progress achieved in the carrying out of the Railway Investment Plan; (B) a proposed operational plan setting forth the Borrower's estimated traction and rolling stock requirements for the remaining period covered by the Railway Investment Plan; and (C) any revisions proposed to be introduced into the Railway Investment Plan on the basis, inter alia, of said operational plan, and the financing plan therefor;
- (iii) afford the Bank a reasonable opportunity to exchange views with the Borrower on said information; and
- (iv) thereafter promptly take all measures necessary to introduce such revisions into the Railway Investment Plan as shall have been agreed between the Bank and the Borrower.

(b) Further to the foregoing:

- (i) the Borrower shall consult with the Bank before introducing any major change in the Railway Investment Plan and ensure that no such change shall be introduced in said Plan unless and until the Borrower shall have established to the satisfaction of the Bank that any proposed investment occasioning such change is financially and economically justified.
- (ii) For the purposes of this Section, the term "major change" in the Railway Investment Plan means any change or changes in the Railway Investment Plan estimated to result or resulting in an increase of 5% or more of the aggregate amount of investments included in said Railway Investment Plan for any one of the Borrower's fiscal years.

ARTICLE VI

CYR's Covenants

Section 6.01. CYR declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall take all action necessary or appropriate to enable the Borrower to perform its obligations under this Agreement and shall not take or concur in any action which would prevent or interfere with such performance.

Section 6.02. In order to ensure the proper coordination of the implementation of the Project, the Bank, the Borrower and CYR hereby agree that CYR shall take the following actions on behalf of the Borrower:

- (a) preparation and furnishing to the Bank of withdrawal

applications under the Loan and collection and furnishing to the Bank of the documents and other evidence to be furnished to the Bank in support of such applications;

(b) carrying out of the monitoring and evaluation activities referred to in Section 4.02 of this Agreement, and preparation and furnishing to the Bank of the revisions referred to in said Section, proposed to be introduced into the Action Plan and the Railway Investment Plan;

(c) preparation and furnishing to the Bank of the plans, schedules and reports referred to in Sections 9.06 and 9.07 of the General Conditions;

(d) coordination of the procurement of goods and services required for the Project; and

(e) carrying out of the studies and provision of training included in the Project.

Section 6.03. (a) CYR shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) CYR shall promptly inform the Bank of any condition which interferes or threatens to interfere with the performance by CYR of its obligations under this Agreement.

Section 6.04. CYR shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, economic and railway practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 6.05. (a) CYR shall maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in respect of railway operations allocated through CYR and attributable to the Borrower.

(b) CYR shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles 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 months after the end of each such year, the 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 said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE VII

Remedies of the Bank

Section 7.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) The proceeds of the financing provided under the Cofinancing Agreements shall not have become available to the Borrower pursuant to the schedule of required availability agreed to between the Bank and the Borrower or the proceeds of the Additional Funds shall not have become available by December 31, 1990; provided, however, that the provisions of this paragraph shall not

apply if the Borrower establishes to the satisfaction of the Bank that 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.

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

- (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project, shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement or other instrument providing therefor; or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Sub-paragraph (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.

(c) The Republic shall have failed to provide any of the Local Funds to the Borrower in accordance with the provisions of the Funding Law.

(d) The Basic Legislation or any other law of the Guarantor or the Republic pertaining to the operations of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of the Borrower or the ability of the Borrower to perform any of its obligations under this Agreement.

(e) CYR shall have failed to perform any of its obligations under this Agreement.

(f) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CYR will be able to perform its obligations under this Agreement.

(g) The Law or Statutes referred to in Section 1.02 (a) of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CYR to perform any of its obligations under this Agreement.

(h) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CYR or for the suspension of its operations.

Section 7.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (b) (i) (B) of Section 7.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of said Section;

(b) any of the events specified in paragraph (e) of Section 7.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(c) any of the events specified in paragraphs (d), (g) and (h) of Section 7.01 of this Agreement shall occur.

ARTICLE VIII

Effective Date; Termination

Section 8.01. 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) the Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, CYR and is legally binding upon CYR in accordance with its terms; and

(b) the Funding Law has been duly enacted by the Republic and is in full force and effect.

Section 8.02. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE IX

Representative of the Borrower and of CYR; Addresses

Section 9.01. (a) The General Manager of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

(b) Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of CYR may be taken or executed by the President of the Managing Board of CYR or such other person or persons as said person shall designate in writing, and CYR shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 9.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For the Borrower:

ZTP Zagreb
41000 Zagreb
Mihanoviceva 12
Yugoslavia

Telex:

21199 YU

For CYR:

ZJZ Beograd

11000 Beograd
Nemanjina 6
Yugoslavia

Telex:

12495 YU ZJZ

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/ E. F. Lari
Acting Regional Vice President
Europe, Middle East and North Africa

RAILWAY TRANSPORT ENTERPRISE ZAGREB

By /s/ D. Mujezinovic
Authorized Representative

COMMUNITY OF YUGOSLAV RAILWAYS

By /s/ D. Mujezinovic
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	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods for Parts A (1) and A (4) of the Project	20,240,000))))))	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and
(2) Equipment for Part A (5) of the Project	6,630,000))))	80% of local expenditures for other items pro- cured locally
(3) Consultants' services and training	132,000	26.94%
(4) Unallocated	5,498,000	

TOTAL 32,500,000
 =====

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 \$1,300,000, may be made on account of payments made for expenditures before that date but after April 1, 1989.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in the upgrading and development of Yugoslavia's principal railway lines, the improvement of railway transportation on said lines, the integration of Yugoslavia's railway system and the strengthening of the management and operational capabilities and financial performance of the Borrower, all in accordance with the Guarantor's strategy of increasing the efficiency of the transport sector and increasing its foreign exchange earnings derived therefrom.

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

Part A: Infrastructure, Traction and Rolling Stock and Equipment

- (1) Overhaul of tracks.
- (2) Reconstruction of lines and stations and provision of facilities required therefor.
- (3) Electrification of railway lines.
- (4) Provision and installation of signalling and telecommunication systems.
- (5) Provision of track maintenance equipment.
- (6) Rehabilitation and provision of traction and rolling stock and provision of spare parts for locomotives.
- (7) Provision of training equipment and equipment and facilities required in the carrying out of the Borrower's operations, including, inter alia, workshops, depots and radio dispatching equipment.

Part B: Studies and Seminars

- (1) Carrying out of a comparative study of railway marketing in various countries.
- (2) Carrying out of a study to identify, evaluate and recommend measures to improve transit traffic.
- (3) Provision of a seminar to improve the skills of the Borrower's staff in economic and financial analysis.

* * * *

The Project is expected to be completed by June 30, 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1 beginning February 1, 1995 through August 1, 2004	1,625,000

* The figure in this column represents the dollar equivalent determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Foreign contractors and suppliers shall not be required to register in Yugoslavia as a prerequisite for submitting bids. In the

event that such registration shall be required after a foreign contractor or supplier has been notified that he will be awarded a contract, the Borrower and CYR shall take all measures necessary to facilitate such registration.

3. Each contract for the supply of goods shall include provisions whereby the Borrower shall undertake to take all measures necessary to enable the supplier of such goods or works to import such equipment, materials and specialized manpower as may be required to perform its obligations under said contract.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Section, goods manufactured in Yugoslavia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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 \$2,600,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) 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; or

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

SCHEDULE 6

Action Plan

1. Operational Targets

(a) The Borrower shall at all times take all necessary action to achieve the operational targets set forth in the Annex to this Schedule.

(b) Without limitation upon the provisions of paragraph (a) above, the Borrower shall carry out: (i) a staff reduction program, satisfactory to the Bank, designed to ensure the achievement of the staffing targets set forth in the Annex to this Schedule; and (ii) a program for the closure of freight stations, satisfactory to the Bank, designed to ensure the achievement of the station closure targets set forth in the Annex to this Schedule.

2. Locomotive Overhaul

The Borrower shall carry out a program, satisfactory to the Bank, to improve the system of maintenance and overhaul of the Borrower's locomotives, designed to centralize such maintenance and overhaul activities in selected depots and workshops so as to minimize the need for maintenance and overhaul equipment, reduce the inventories of spare parts required and improve the efficient procurement of spare parts.

3. Spare Parts Monitoring

The Borrower shall, not later than November 30, 1991, introduce a monitoring system, satisfactory to the Bank, designed to assist the Borrower in ensuring the availability as and when needed of spare parts for traction and rolling stock in adequate quantities.

Annex to Schedule 6

Operational Targets

	1990	1991	1992	1993
Number of staff at year-end	32,566	31,915	31,277	30,652
Productivity of labor (traffic units (thousand)/employee)	339	348	361	375
Number of freight stations to be closed (cumulative)	41	61	61	61
Availability of electric	88	89	90	90

locomotives (%)				
Availability of diesel locomotives (%)	78	79	81	83
Availability of electric motor trains (%)	82	83	83	83
Availability of diesel motor trains (%)	83	83	83	83
Availability of passenger coaches (%)	83	84	84	85
Availability of freight wagons (%)	95	95	95	95

SCHEDULE 7

Railway Investment Plan

	Total		
	1990	1991	1990-91
	US\$ Million (December 1988 dollars)		
A. COMPLETION OF 1981-85 PLAN			
Procurement of Vehicles	0.74	-	0.74
Sub-Total COMPLETION OF 81-85 PLAN	0.74	-	0.74
Price Contingencies	0.03	-	0.03
Sub-Total INCLUDING CONTINGENCIES	0.77	-	0.77
B. SEVENTH BANK LOAN			
Track Overhaul	13.02	13.12	26.14
SS & TT Equipment	6.95	3.57	10.52
Heavy Mechanication for Line Overhaul & Maintenance	5.93	5.17	11.10
Sub-Total SEVENTH BANK LOAN	25.90	21.86	47.76
Price Contingencies	1.18	1.80	2.98
Sub-Total INCLUDING CONTINGENCIES	27.08	23.66	50.74
C. EIB LOANS			
Track Overhaul	6.85	-	6.85
Zagreb Western Bypass	6.62	15.37	21.99
Information System	7.48	4.12	11.60
Technical Passenger Station	2.11	10.88	12.99
Sub-Total EIB LOANS	23.06	30.37	53.43
Price Contingencies	1.05	2.50	3.55
Sub-Total INCLUDING CONTINGENCIES	24.11	32.87	56.98
			Total
	1990	1991	1990-91
	US\$ Million (December 1988 dollars)		
D. INFRASTRUCTURE			
Electrification	4.03	35.15	39.18
SS & TT Equipment	5.30	5.03	10.33
Track Overhaul	13.42	1.27	14.69
Reconstruction of Stations	4.80	4.49	9.29
Sub-Total INFRASTRUCTURE	27.55	45.94	73.49
Price Contingencies	1.25	3.78	5.03
Sub-Total INCLUDING CONTINGENCIES	28.80	49.72	78.52

E.	ROLLING STOCK			
	Passenger Coaches	5.38	3.00	8.38
	Freight Wagons	5.22	2.90	8.12
	Other	11.54	3.29	14.83
	Sub-Total ROLLING STOCK	22.14	9.19	31.33
	Price Contingencies	1.01	0.76	1.76
	Sub-Total INCLUDING CONTINGENCIES	23.15	9.95	33.09
		1990	1991	1990-91
		US\$ Million (December 1988 dollars)		
F.	MISCELLANEOUS INVESTMENT			
	Integrated Transport	2.14	2.87	5.01
	Other	2.38	3.81	6.19
	Sub-Total MISCELLANEOUS INVESTMENT	4.52	6.68	11.20
	Price Contingencies	0.21	0.55	0.75
	Sub-Total INCLUDING CONTINGENCIES	4.73	7.23	11.95
	Total BASE COSTS	103.91	114.04	217.95
	Price Contingencies	4.73	9.37	14.10
	TOTAL PROJECT COSTS	108.64	123.41	232.05

Note: Base costs are in December 1988 prices.
Exchange Rate: 5218.58 Din = US\$1

Physical Contingencies of 10% have been included in amounts for all items except for Traction and Rolling Stock, Spare Parts and Miscellaneous. Price Contingencies, representing only international inflation, have been estimated at 3% p.a. in 1989-90 and 4% in 1991.