Guarantee Agreement

(Railways Reform Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated February 10, 2006
GUARANTEE AGREEMENT

AGREEMENT, dated February 10, 2006, between FORMER YUGOSLAV REPUBLIC OF MACEDONIA (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and PE MACEDONIAN RAILWAYS ULTD - SKOPJE (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 the amount of fifteen million Euro (€15,000,000), 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 May 1, 2004), with the modifications set forth in Section 1.01 of the Loan Agreement (the General Conditions) constitute an integral part of this Agreement.

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

ARTICLE II

Guarantee; Provision of Funds

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

Section 2.02. The Guarantor shall cause MR to conduct prudential business policy with regard to the minimization of activities beyond Project expenditures. The Guarantor shall provide the funds necessary to cover the financial needs of MR in accordance with the Guarantor’s laws setting the amount of funds projected on annual basis in the Guarantor’s budget for railway infrastructure.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor shall ensure that: (a) all necessary norms and regulations are taken in a timely manner to ensure the entry into force of the Railway Laws, including the adoption of all necessary legal steps to facilitate the establishment of the infrastructure and transport companies within three months of such entry into force; and (b) the Railways Laws shall not be amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 3.02. The Guarantor shall maintain at all times during the course of Project implementation, the Steering Committee to oversee Project implementation.

Section 3.03. The Guarantor shall ensure that SLB shall provide all the necessary assistance, cooperation, resources and funds to carry out Part A.2 and Part B.2 of the Project under terms and conditions set forth in an Implementation Agreement referred to in paragraph 3 of Schedule 5 to the Loan Agreement.

Section 3.04. The Guarantor shall, throughout the implementation of the Project, provide the Bank an opportunity to comment and exchange views on the five year national program for railways infrastructure for the Borrower’s infrastructure operations, referred to in paragraph 9 of the Schedule 5 to the Loan Agreement, after the Borrower has presented the program to the Bank in accordance with paragraph 9 of Schedule 5 of the Loan Agreement and before the Guarantor presents it to its Parliament for approval.

Section 3.05. The Guarantor shall inform the Bank of any plan to make an investment estimated to cost more than one hundred thousand Euro (€100,000) in its railways sector and afford the Bank an opportunity to exchange views on such plan.
Section 3.06. The Guarantor shall by not later than December 31, 2006 approve the track access charge system referred to in paragraph 8 of the Schedule 5 to the Loan Agreement.

Section 3.07. The Guarantor shall by not later than December 31, 2007 decide which loss-making passenger services will continue to be operated and enter into a contractual agreement with the relevant services providers in accordance with the Guarantor’s applicable laws and regulations and under terms and conditions acceptable to the Bank.

ARTICLE IV

Representative of the Guarantor; Addresses

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

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

For the Guarantor:

Ministry of Finance
Dame Gruev 14
1000 Skopje

Facsimile:

+389-2- 311-7280

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
Telex: 248423 (MCI) or Washington, D.C. 64145 (MCI)
Facsimile: +1-202-477-6391
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Skopje as of the day and year first above written.

GUARANTOR

By /s/ Nikola Popovski

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Sandra Bloemenkamp

Authorized Representative