Loan Agreement

(Sustainable Croatian Railways in Europe Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

HZ INFRASTRUKTURA D.O.O.

for financing the Sustainable Croatian Railways in Europe Project

Dated May 2, 2015
LOAN AGREEMENT

Agreement dated 9, 2015, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and HŽ INFRASTRUKTURA D.O.O. ("Borrower"). The Bank and the Borrower hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of seventy-nine million Euro (€79,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-
payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(e) of the General Conditions.

2.06. The Payment Dates are June 1 and December 1 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

(ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and

(iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c)
of the General Conditions up to the amount allocated from time to time for
the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objective of the Project. To this end,
the Borrower shall carry out Parts A and D of the Project, with the assistance of
MMATI, in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and
except as the Borrower and the Bank shall otherwise agree, the Borrower shall
ensure that the Project is carried out in accordance with the provisions of Schedule
2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consists of the following:

(a) that the Borrower's Legislation has been amended, suspended, abrogated,
repealed or waived so as to affect materially and adversely, in the opinion
of the Bank, the ability of the Borrower to perform any of its obligations
under this Agreement; and

(b) that the Bank has suspended in whole or in part the right of HZC or HZP
to make withdrawals under the HZC Loan Agreement or the HZP Loan
Agreement, respectively, because of a failure of either company to
perform any of its obligations under such agreement.

4.02. The Additional Events of Acceleration consist of the following: namely, that any
event specified in Section 4.01 of this Agreement occurs and is continuing for a
period of thirty (30) days after notice of the event has been given by the Bank to
the Borrower.

ARTICLE V — EFFECTIVENESS

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) that the Subsidiary Agreement has been executed on behalf of the
Borrower and the Guarantor; and

(b) that the HZC Loan Agreement and the HZP Loan Agreement have been
executed and all conditions precedent to their effectiveness (other than the
effectiveness of this Agreement) have been fulfilled.
5.02. The Additional Legal Matter consists of the following: namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the Guarantor and is legally binding upon the Borrower and the Guarantor in accordance with its terms.

5.03 The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is President of the Management Board.

6.02. The Borrower’s Address is:

HŽ Infrastruktura d.o.o.
Mihanoviceva 12
Zagreb
Republic of Croatia

Facsimile:

+385 1 3783326

6.03. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex: Facsimile:

INTBAFRAD 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)
AGREED at Zagreb, Republic of Croatia, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

[Signature]

Authorized Representative

Name: Carlos Pineria
Title: Country Manager

HŽ INFRASTRUKTURA D.O.O.

By

[Signature]

Authorized Representative

Name: Renata Busa
Title: President of the Management Board
SCHEDULE 1

Project Description

The objective of the Project is to improve the operational efficiency and the financial sustainability of the public rail sector in the Guarantor's territory.

The Project consists of the following parts:

Part A. Support to Sector Restructuring and Coordination

1. Finalizing asset management separation among the Railway Companies and clarifying the legal status of their main assets, through the provision of consulting services and non-consulting services to MMATI.

2. Project coordination support, sector reform monitoring, and definition of railway services obligations with HZI and HZP, through the provision of consulting services, non-consulting services, Training, and Operating Costs to MMATI.

Part B. Support to HZ Passenger Transport Restructuring

1. Retrenchment. Provision of HZP Retrenchment Payments, including job outplacement and retraining services, counseling and advisory support.

2. Investment to contribute to the restructuring plan of HZP
   (a) Rehabilitating rolling stock to improve efficiency of the fleet.
   (b) Modernizing and integrating information technology.
   (c) Preparing studies to adapt business processes to reorganize operations and improve energy efficiency of operations.
   (d) Capacity building on management and restructuring.

Part C. Support to HZ Cargo Restructuring

1. Retrenchment. Provision of HZC Retrenchment Payments, including job outplacement and retraining services, counseling and advisory support.

2. Investment to contribute to the restructuring plan of HZC
   (a) Rehabilitating rolling stock to improve efficiency of the fleet.
   (b) Modernizing and integrating information technology.
   (c) Capacity building on management and restructuring.
Part D. Support to HZ Infrastructure Restructuring and Enabling Investment to Increase System Efficiency

1. **Retrenchment.** Provision of HZI Retrenchment Payments, including job outplacement and retraining services, counseling and advisory support.


3. Undertaking other railway safety works, including:
   (a) Reinforcing cuts and slope on the two corridors from Rijeka;
   (b) Rehabilitating or replacing the Klostar and Ljubosina bridges on the Zagreb-Rijeka axis.

4. Undertaking emergency infrastructure investments, including:
   (a) Rehabilitating the Ogulin-Moravice line;
   (b) Rehabilitating the Varazdin-Cakovec line; and
   (c) Replacing switches, electrical, and support systems (for safety and signaling) on international and national corridors selected pursuant to criteria set forth in Supplemental Letter #4; and
   (d) Constructing and improving the Borongaj, Rijeka-Brajdica, and Vinkovci railway stations.

5. Capacity building on management and restructuring.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Borrower shall:

1. (a) carry out Parts A and D of the Project;
    (b) be responsible for management of the activities under Parts A and D, including procurement, disbursement, financial management, monitoring, reporting and coordination; and

2. maintain and operate its Project Implementation Unit ("PIU") throughout the duration of the Project, in a form and with functions, staffing, terms of reference, qualifications, and scope of responsibilities satisfactory to the Bank.

B. Subsidiary Agreement

1. The Borrower shall enter into a Subsidiary Agreement with the Guarantor ("Subsidiary Agreement") under which the Guarantor shall reimburse to the Borrower the Loan amount disbursed under Category (1) ("Subsidiary Financing"), under terms and conditions approved by the Bank. Except as the Bank shall otherwise agree, the principal amount of the Subsidiary Financing shall be payable in Euros.

2. The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive, terminate or fail to enforce the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Borrower shall ensure that Parts A and D of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. Without limitation to paragraph 2(a) of this Section I, Part D, the Borrower shall ensure that Parts A and D of the Project are carried out in accordance with the Environmental Management Framework ("EMF") and the Resettlement Policy Framework ("RPF") and shall ensure that no provision of the EMF or the RPF is
amended, suspended, abrogated, repealed or waived without prior approval by the Bank.

2. (a) Prior to the financing of any activities under Part D of the Project that were completed prior to the date of this Agreement, the Borrower shall:

(i) have publically disclosed an Environmental Audit Report, carried out public consultations on its findings, and publically disclosed the final Environmental Audit Report, including any modifications made as a result of the public consultations, if applicable; and

(ii) submit evidence to the Bank, in the form of the Environmental Audit Report, that said activities were carried out in accordance with the applicable Safeguard Policies.

(b) Prior to carrying out any works under Part D of the Project other than those referred to in sub-paragraph (a) above, the Borrower shall prepare a site-specific Environmental Management Plan ("EMP") in accordance with the EMF and satisfactory to the Bank, and shall disclose and carry out public consultations for said EMP in accordance with the EMF.

(c) For works referenced in sub-paragraph (b) above, the Borrower shall implement Project activities under Part D of the Project in accordance with the applicable EMP.

3. Prior to carrying out any works referred to in paragraph 2(b) above which involve Resettlement, the Borrower shall:

(a) prepare a Resettlement Action Plan ("RAP") in accordance with the RPF and satisfactory to the Bank;

(b) disclose and carry out consultations for said RAP in accordance with the provisions of the RPF; and

(c) implement said RAP in accordance with its terms, including by providing appropriate compensation to all owners and users of the land where works are to be implemented.

4. The Borrower shall ensure that: (a) the terms of reference for any consultancies related to the technical assistance under Parts A and D of the Project shall be satisfactory to the Bank and, to that end, such terms of reference shall require that the advice conveyed and documentation prepared through such technical assistance be consistent with the requirements of the EMF; (b) technical assistance activities are screened for environmental and social impacts and to determine
eligibility in accordance with the EMF; and (c) if applicable, the required environmental documentation, such as an EMP, is prepared as part of the technical assistance.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of Parts A and D of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank, MMATI and MOF not later than forty-five (45) days after the end of the period covered by such report.

2. Without limitation to Section 5.08 of the General Conditions, the Borrower shall:
   (a) on or about the date twenty-four (24) months after the Effective Date, submit to the Bank a mid-term report, in such detail as the Bank shall reasonably request, documenting progress achieved in the carrying out of Parts A and D of the Project during the period preceding the date of the mid-term report, taking into account the monitoring and evaluation activities performed pursuant to Section II.A.1 of this Schedule, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and
   (b) review with the Bank the mid-term report, on or about the date one month after its submission, and thereafter take all measures required to ensure the efficient implementation of Parts A and D of the Project and the achievement of its objectives, based on the conclusions and recommendations of the mid-term report and the Bank's views on the matter.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Borrower, including the operations, resources and expenditures related to Parts A and D of the Project.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank, not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for Parts A and D of the Project covering the pertinent calendar semester, in form and substance satisfactory to the Bank.

3. The Borrower shall have the Financial Statements of Parts A and D of the Project audited in accordance with the provisions of Section 5.09(b) of the General
Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal is made under the Loan for either Parts A or D of the Project. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

4. The Borrower shall have its single entity financial statements and its consolidated group financial statements (including its subsidiaries) audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal is made under the Project.

5. The Borrower shall furnish its single entity audited financial statements for each period to the Bank not later than six (6) months after the end of the period and make them publicly available in a timely fashion and in a manner acceptable to the Bank. The Borrower shall furnish its consolidated group audited financial statements for each period to the Bank not later than nine (9) months after the end of the period and make them publicly available in a timely fashion and in a manner acceptable to the Bank.

Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting services required for Parts A and D of the Project and to be financed out of the proceeds of the Loan, shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for Parts A and D of the Project and to be financed out of the proceeds of the Loan, shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.
B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan:

   (a) National Competitive Bidding, subject to the additional procedures stipulated in the Annex to this Schedule;
   (b) Shopping;
   (c) Direct Contracting; and
   (d) Framework Agreements.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan:

   (a) Quality-based Selection;
   (b) Selection under a Fixed Budget;
   (c) Least Cost Selection;
   (d) Selection based on Consultants’ Qualifications;
   (e) Single-source Selection of consulting firms;
   (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for Selection of Individual Consultants; and
   (g) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.
Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in Euro)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, and Training for Part A of the Project</td>
<td>2,600,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) HZP Retrenchment Payments under Part B of the Project</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(3) Goods, works, non-consulting services, consultants’ services and Training for Part B of the Project</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(4) HZC Retrenchment Payments under Part C of the Project</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Loan Allocated (expressed in Euro)</td>
<td>Percentage of Expenditures to be financed (inclusive of Taxes)</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>---------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(5) Goods, works, non-consulting services, consultants' services and Training for Part C of the Project</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(6) HZI Retrenchment Payments under Part D of the Project</td>
<td>13,700,000</td>
<td>100%</td>
</tr>
<tr>
<td>(7) Goods, works, non-consulting services, consultants' services and Training for Part D of the Project</td>
<td>62,502,500</td>
<td>100%</td>
</tr>
<tr>
<td>(8) Front-end Fee</td>
<td>197,500</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions</td>
</tr>
<tr>
<td>(9) Interest Rate Cap or Interest Rate Collar premium</td>
<td></td>
<td>Amount due pursuant to Section 2.08(c) of this Agreement</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>79,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals may be made for payments made prior to this date but on or after May 8, 2014, for Eligible Expenditures under Category (7), up to an aggregate amount not to exceed Euro 15,700,000; provided that the activities for which such payments were made did not involve Resettlement.

2. The Closing Date is May 31, 2020.

Section V. Other Undertakings

A. Other Contractual Obligations

The Borrower shall not, throughout the implementation of the Project, enter into arrangements or contracts (including employees’ promotions, salary increases, and debt) that could materially and/or adversely affect, in the opinion of the Bank, the ability of the Borrower to perform any of its respective obligations under this Agreement and/or affect its financial viability, unless otherwise agreed in writing with the Bank.

B. Debt Service Coverage

1. Except as the Bank shall otherwise agree, the Borrower shall not incur any debt 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:

   (a) shall be at least 1.0 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred, up to the Closing Date; and

   (b) shall be at least 1.1 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred, after the Closing Date until the repayment of the Loan under this Agreement.

2. For the purposes of this Section:

   (a) 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.

   (b) Debt shall be deemed to be incurred: (i) 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 (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(c) The term “net revenues” means the difference between:

(i) the sum of revenues from all sources related to operations, including revenues from state budget, and net non-operating income; and

(ii) 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.

(d) The term “net non-operating income” means the difference between:

(i) revenues from all sources other than those related to operations; and

(ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.

(e) 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.

(f) 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.

(g) 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.
ANNEX to SCHEDULE 2

Additional Provisions for National Competitive Bidding

For the purposes of following National Competitive Bidding procedures in the procurement of goods, works and non-consulting services to be financed under the Loan, and to ensure broader consistency with the provisions of Section I of the Guidelines, the following modifications and additions shall apply:

(i) **Procedures**

The open competitive bidding method shall apply to all contracts. Invitations to bid shall be advertised in the Guarantor’s Official Gazette (*Narodne Novine*), in at least one widely circulated national daily newspaper, or on a widely used website with free access (including the Borrower’s website), allowing a minimum of thirty (30) days for the preparation and submission of bids.

(ii) **Pre-qualification**

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in the Guarantor’s Official Gazette (*Narodne Novine*), in at least one widely circulated national daily newspaper, or on a widely used website with free access (including the Borrower’s website), allowing a minimum of thirty (30) days for the preparation and submission of pre-qualification applications. Minimum experience and technical and financial requirements shall be explicitly stated in the pre-qualification documents, which shall be determined by a “pass/fail” method, not through the use of a merit point system. Where pre-qualification is not used, the qualifications of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying minimum experience, technical and financial requirements which shall be explicitly stated in the bidding documents.

(iii) **Participation of Government-owned Enterprises**

Government-owned enterprises located and operating on the Guarantor’s territory shall be eligible to participate in bidding only if they can establish, to the Bank’s satisfaction, that they are legally and financially autonomous, operate under commercial laws and are not a dependent entity of the Borrower. Said enterprises shall be subject to the same bid and performance security requirements as other bidders.
Bidding Documents

The Borrower shall use appropriate bidding documents that are acceptable to the Bank.

Bid Submission, Opening and Evaluation

1. Bids shall be submitted in a single envelope containing the bidder’s qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening.

2. Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening.

3. The evaluation of bids shall be done in strict adherence to the monetarily quantifiable criteria specified in the bidding documents and a merit point system shall not be used.

4. Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be granted without the prior approval of the Bank.

5. Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.

6. No preference shall apply under National Competitive Bidding.

Rejection of All Bids

All bids shall not be rejected and new bids solicited without the Bank’s prior written concurrence.

Price Adjustment

Civil works contracts of long duration (e.g., more than eighteen (18) months) shall contain an appropriate price adjustment clause.

Securities

Bid securities shall not exceed two percent (2%) of the estimated cost of the contract and performance securities not more than ten percent (10%). No advance payments shall be made to contractors without a suitable advance payment security. The
wording of all such securities shall be included into the bidding documents and shall be acceptable to the Bank.

(ix) Right to inspect and audit

Each bidding document and contract financed from the proceeds of the Loan shall provide that the bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Bank, at its request, to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Bank. Acts intended to materially impede the exercise of the Bank’s inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines.

(x) Fraud & Corruption

Any bidding document and contract deemed acceptable by the Bank shall include provisions stating the Bank’s policy to sanction firms or individuals, found to have engaged in fraudulent, corrupt, collusive, coercive, and obstructive practices as defined in the Procurement Guidelines.

(xi) Conflict of Interest

Any bidding document and contract deemed acceptable by the Bank shall include provisions stating the Bank’s policy of conflict of interest.
SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1, 2018</td>
<td>6.05%</td>
</tr>
<tr>
<td>December 1, 2018</td>
<td>6.20%</td>
</tr>
<tr>
<td>June 1, 2019</td>
<td>6.36%</td>
</tr>
<tr>
<td>December 1, 2019</td>
<td>6.52%</td>
</tr>
<tr>
<td>June 1, 2020</td>
<td>6.68%</td>
</tr>
<tr>
<td>December 1, 2020</td>
<td>6.85%</td>
</tr>
<tr>
<td>June 1, 2021</td>
<td>7.02%</td>
</tr>
<tr>
<td>December 1, 2021</td>
<td>7.19%</td>
</tr>
<tr>
<td>June 1, 2022</td>
<td>7.37%</td>
</tr>
<tr>
<td>December 1, 2022</td>
<td>7.56%</td>
</tr>
<tr>
<td>June 1, 2023</td>
<td>7.75%</td>
</tr>
<tr>
<td>December 1, 2023</td>
<td>7.94%</td>
</tr>
<tr>
<td>June 1, 2024</td>
<td>8.14%</td>
</tr>
<tr>
<td>December 1, 2024</td>
<td>8.37%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

   (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount
of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
APPENDIX

Section I. Definitions


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “Environmental Audit Report” means a report, acceptable to the Bank, pursuant to Schedule 2, Section I, Part D, paragraph 2(a) of this Agreement, by which the Borrower certifies to the Bank that works completed prior to the date of this Agreement were implemented in accordance with the applicable Safeguard Policies.

6. “Environmental Management Framework” or “EMF” means the Environmental Management Framework prepared and disclosed by the Borrower for Parts A and D of the Project on March 12, 2015, satisfactory to the Bank and describing the rules, guidelines and procedures to assess environmental impacts of said Project’s activities and defining measures to reduce, mitigate or offset adverse environmental impacts and enhance the positive impacts of the Project’s activities, as the same shall be amended from time to time with the prior approval of the Bank.

7. “Environmental Management Plan” or “EMP” means a site-specific Environmental Management Plan comprised of an environmental mitigation plan and environmental monitoring plan to be prepared and adopted by the Borrower pursuant to the EMP and to be implemented by the Borrower in accordance with the provisions of Schedule 2, Section I, Part D, paragraph 2 of this Agreement, satisfactory to the Bank, wherein are set forth specific details of measures to manage identified or potential environmental risks and to mitigate, reduce and/or offset adverse environmental impacts associated with the implementation of activities under Parts A and D of the Project, together with an environmental and social baseline for each site, details of the relevant environmental legislative framework, adequate institutional, monitoring and reporting arrangements capable
of ensuring proper implementation of, and regular feedback on compliance with, its terms, as the same may be amended and supplemented from time to time with the Bank’s prior written approval.

8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.


10. “HŽ Cargo” or “HZC” means the Croatian company HŽ CARGO d.o.o., registered at the Guarantor’s Commercial Court of Zagreb, registration number (MBS) 080590549, PIN: 08720210702, of which the Guarantor is the sole shareholder, or any legal successor thereto acceptable to the Bank.

11. “HŽ Infrastructure”, “HZI” or the “Borrower” means the Croatian company HŽ INFRASTRUKTURA d.o.o. for the Management, Maintenance and Construction of Railway Infrastructure, registered at the Guarantor’s Commercial Court of Zagreb, registration number (MBS) 080590485, PIN: 39901919995, of which the Guarantor is the sole shareholder, or any legal successor thereto acceptable to the Bank.

12. “HŽ Putnički Prijevoz d.o.o.” or “HZP” means the Croatian passenger transport company HŽ Putnički Prijevoz d.o.o. registered at the Commercial Court of Zagreb, registration number (MBS) 080590508, PIN: 80572192786, of which the Guarantor is the sole shareholder, or any legal successor thereto acceptable to the Bank.

13. “HZC Loan Agreement” means the Loan Agreement between the Bank and HZC for this same Project.

14. “HZP Loan Agreement” means the Loan Agreement between the Bank and HZP for this same Project.

15. “MMATI” means the Ministry of Maritime Affairs, Transport and Infrastructure of the Guarantor, or any legal successor thereto.


“Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 19, 2015 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

“Railway Companies” means HZC, HZI and HZP collectively.

“Resettlement” means: (a) the involuntary taking of land resulting in (i) relocation or loss of shelter, (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the displaced persons.

“Resettlement Action Plan” or “RAP” means a resettlement action plan, satisfactory to the Bank, to be prepared and implemented by the Borrower for carrying out activities under Part D of the Project in accordance with the Resettlement Policy Framework (as hereinafter defined), to set out, inter alia, the principles and objectives, the affected persons’ eligibility criteria, compensation, assistance and rehabilitation entitlements, as well as the monitoring and reporting arrangements in conformity with the Resettlement Policy Framework.

“Resettlement Policy Framework” or “RPF” means the Resettlement Policy Framework prepared by the Borrower for Part D of the Project and disclosed on March 13, 2015, satisfactory to the Bank, defining the modalities for Resettlement under said Part of the Project and describing the policies, procedures, plans and actions (including the resettlement action plan), and institutional measures related to land acquisition and other social impacts that may arise during the Project.

“Retrenchment Payments” means social benefits provided by HZC, HZI, or HZP to their staff for retrenchment or redundancy, including job outplacement and retraining services, counseling and advisory support set forth in the respective companies’ Retrenchment Plans.

“Retrenchment Plans” means the following plans: (a) Retrenchment plan for HŽ Cargo LLC 2015-2018, dated February 18, 2015; (b) Retrenchment plan for HŽ Infrastruktura LLC 2015-2017, dated February, 10 2015; and (c) Retrenchment Plan for HŽ Passenger Transport Limited Liability Company.

“Safeguard Policies” means the Bank’s operational policies and procedures set forth in the Bank’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 as said manual is published under www.worldbank.org/opmanual.
26. "Supplemental Letter #4" means the letter from HZI signed on the same date as this Agreement and setting forth prioritization criteria for identifying certain works under Part D of the Project.

27. "Training" means Project-related training and includes training courses, seminars, workshops and other training activities, not included under service providers' contracts, including costs of training materials, space and equipment rental, reasonable and necessary local and international travel by participants in training activities, reasonable lodging and accommodation, subsistence and local and international per diem of trainees and trainers, registration, tuition and facilitators' fees, translation and interpretation, and other training related miscellaneous costs, all based on budgets acceptable to the Bank.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.

2. Section 3.01. (Front-end Fee) is modified to read as follows:

   "Section 3.01. Front-end Fee; Commitment Charge

   (a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").

   (b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."

3. In the Appendix, Definitions, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.

4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

   "19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."
5. In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of “Front-end Fee” is modified by replacing the reference to Section 3.01 with Section 3.01 (a).

6. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

   “68. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

7. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.

-26-