Energy Community of South East Europe Program

Loan Agreement

(FYR Macedonia Component – AD MEPSO Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

AD PRENOS NA ELEKTRICNA ENERGIJA I UPRAVUVAJKE SO
ELEKTROENERGETSKIOT SISTEM, VO DRZAVNA SOPSTVENOST,
SKOPJE
Dated April 19, 2006
AGREEMENT, dated April 19, 2006, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and AD PRENOS NA ELEKTRICNA ENERGIJA I UPRAVUVANJE SO ELEKTROENERGETSIKOT SISTEM, VO DRZAVNA SOPSTVENOST, SKOPJE (the Borrower or AD MEPSO), a joint stock company established and operating under the laws of the former Yugoslav Republic of Macedonia (the Guarantor) and further defined in Section 1.02 (a) of this Agreement.

WHEREAS (A) the Guarantor and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan) and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Guarantor has expressed its commitment to the Energy Community of South East Europe (ECSEE) which serves as the framework for policy reform, institutional development and investments in the energy sector in the participating countries;

(D) the Guarantor has sought assistance from the Bank’s regional ECSEE program which is designed to help the countries of South East Europe meet their commitments for the ECSEE’s development by implementing priority investments supporting electricity market and power system operations and technical assistance for institutional/systems development and project preparation and implementation; 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 and in the aforesaid Guarantee 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 for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

“(c) Not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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) “AD MEPSO” means AD prenos na elektricna energija i upravuvanje so elektroenergetski sistem, vo drzavna sopstvenost, Skopje, a joint stock company established and operating pursuant to Resolution No. 23-3343/1 of the Government of the

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Guarantor, dated September 27, 2004, whose Charter and By-laws were published in the Official Gazette of the Guarantor, dated December 27, 2004, under Number 92/2004, and which was registered on December 31, 2004 in the Trade Register of Basic Court Skopje I under the number 02060952?-4-09-000 pursuant to Registration Resolution No. 558/2004 issued by the Registration Court;

(b) “EMPs” means, collectively, the Environmental Management Plans prepared by the Borrower and satisfactory to the Bank, dated August 2005, in respect of the expansion of the Skopje 5 substation and dated July 2005, in respect of the construction of the 400 kV interconnection transmission line between the Guarantor and Greece, as well as the environmental management plans to be prepared by the Borrower in consultation with the Guarantor and pursuant to the FEAP (as hereafter defined), satisfactory to the Bank, in connection with the Borrower’s additional investments in power lines and substations financed under the Project, in each case setting forth the measures to be taken during the implementation and operation of the investments to avoid or reduce adverse environmental impacts, and the actions needed to implement these measures;

(c) “FEAP” means the Framework for Environmental Assessment Procedures, dated May 2005, prepared by the Borrower and approved by the Bank describing the environmental issues, mitigation, monitoring and institutional measures for the Project;

(d) “Financial Monitoring Report” or “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(e) “Investment Program” means that part of the Medium Term Power System Investment Program, dated October 26, 2005, prepared by the Borrower for the rehabilitation and upgrading of the transmission network operated by the Borrower, and consisting of the investments listed in Attachment 1 of said Program, dated September 2005 and entitled “Procurement Plan, Electric Power Development Project, Republic of Macedonia”;

(f) “LAPF” means the Land Acquisition Policy Framework, dated July 2005, prepared by the Borrower and approved by the Bank describing the principles and procedures for the acquisition of land required for investments under the Project;

(g) “PIU” means the Project Implementation Unit established within the Borrower in July 2005, and referred to in paragraph 2 of Part A of Schedule 5 to this Agreement;

(h) “Procurement Plan” means the Borrower’s procurement plan, dated September 21 2005, covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;
(i) “Resolution” means Resolution No. 23-3343/1 of the Government of the Guarantor, dated September 27, 2004, pursuant to which the Borrower was established and is operating; and

(j) “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 this Agreement, an amount equal to twenty million seven hundred thousand Euro (\(20,700,000\)).

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 (including supply and installation) and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. 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 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.
(b) For the purposes of this Section:

(i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.

(iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); and (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.
Section 2.08. 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. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods (including supply and installation) and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.
ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank), audited, commencing with the accounts for the year ending December 31, 2006, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank):

(A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and

(B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
enable the Bank’s representatives to examine such records; and

ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Part C of Schedule 5 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall produce, during the period commencing on January 1, 2007 and ending on the Closing Date, funds from internal sources equivalent to not less than 35% of the Borrower’s aggregate capital expenditures incurred for system rehabilitation and upgrade under the Investment Program during that period, and the Borrower shall apply such funds from internal sources to finance such capital expenditures in each of its fiscal years after its fiscal year ending on December 31, 2006.

(b) Prior to the commencement of 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) in respect of such year and the next following fiscal year and shall furnish to the Bank a copy 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) for the Borrower’s fiscal years covered by such review, the Borrower shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

   (i) The term “funds from internal sources” means the difference between:

   (A) the sum of revenues from all sources related to operations, net non-operating income and any reduction in working capital other than cash; and

   (B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

   (ii) 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.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, unless the net revenues of the Borrower for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.5 times the estimated maximum debt service requirements of the Borrower for any succeeding fiscal 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 license fees, 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.

Section 4.05.  (a) The Borrower shall take all actions required on its part to reduce accounts receivable following a methodology acceptable to the Bank so as to ensure that its accounts receivable do not exceed eighteen percent (18%) of its gross operating revenues.

(b) For the purposes of this Section, the term “gross operating revenues” means the sum of revenues from all sources related to operations.
ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative, engineering, financial, accounting and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers;

(b) at all times operate and maintain its plants, machinery, equipment 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 environmental practices; and

(c) 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 VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that the Resolution or the by-laws of the Borrower governing the Borrower’s activities, as amended to the date of this Agreement, shall have been further amended, suspended, abrogated, repealed or waived, or the Guarantor shall have enacted new legislation or issued new directives, in such a way as to affect materially and adversely the ability of the Borrower to perform any of its obligations or to comply with any of the covenants set forth in this Agreement.

Section 6.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 6.01 of this Agreement shall have occurred.

ARTICLE VII

Termination

Section 7.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The General Director of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

AD prenos na elektricna energija i upravuvanje so elektroenergetski sistem vo drzavna sopstvenost, Skopje ul. Orce Nikolov b.b. Skopje 1000

Facsimile:

(389-2) 311-1160

For the Bank:

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

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

AD PRENOS NA ELEKTRICNA ENERGIJA
I UPRAVUVANJE SO ELEKTROENERGETSKIOT SISTEM, VO DRZAVNA SOPSTVENOST, SKOPJE

By /s/ Trajce Cerepnalkovski
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Sandra Bloemenkamp
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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Euro)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, including supply and installation</td>
<td>19,860,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ services</td>
<td>788,250</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Front-end fee</td>
<td>51,750</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
</tbody>
</table>

TOTAL 20,700,000

2. 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 $1,000,000, may be made on account of payments made for expenditures before that date but after January 2, 2006.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $75,000 equivalent per contract; (b) services of consulting firms under contracts costing less than $75,000 equivalent per contract; and (c) services of individual consultants costing less than $35,000 equivalent per contract; all under such terms and conditions as the Bank shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objective of the Project is to support the implementation of the Investment Program and to improve the overall operational efficiency of AD MEPSO.

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

Part A: Expansion of Skopje 5 Substation

Increase of the capacity of the Skopje 5 substation to facilitate meeting of load growth in the Skopje area.

Part B: Rehabilitation and Construction of Overhead Lines

1. Replacement of existing lines to reduce outages and to reduce risks to the general public.

2. Construction of new lines to reduce losses, improve system security, and increase the level of interconnection with neighboring systems.

Part C: Upgrading of the Existing EMS System and Planning Software

Improvement of the system control and planning thus reducing system costs and improving security of supply.

Part D: Upgrading and Rehabilitation of 110 kV Substations

Replacement and upgrading of substation equipment in order to reduce costs, improve reliability, and to facilitate remote control of substations.

Part E: Institutional Development

Provision of consultants’ services to strengthen the Borrower’s institutional capacity and development of a financial management system.

* * *

The Project is expected to be completed by September 30, 2010.
### SCHEDULE 3

**Amortization Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (Expressed in Euro)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15</td>
<td></td>
</tr>
<tr>
<td>beginning April 15, 2011</td>
<td></td>
</tr>
<tr>
<td>through April 15, 2022</td>
<td>865,000</td>
</tr>
<tr>
<td>On October 15, 2022</td>
<td>805,000</td>
</tr>
</tbody>
</table>

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 4.04 (d) of the General Conditions.
SCHEDULE 4

Procurement

Section I. General

A. All goods and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Guarantor.

B. Other Procurement Procedures

1. Shopping. Office equipment for the PIU estimated to cost less than 7,500 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Contracts for software for the expansion of the Energy Management System and planning software, as well as for control and protection equipment at the Skopje 5 substation, which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
B. Other Procedures

1. Selection Based on Consultants’ Qualifications. Services estimated to cost less than 60,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods procured on the basis of International Competitive Bidding; (b) the first two contracts for goods procured under Shopping; (c) each contract procured under Direct Contracting; (d) each contract for consultants’ services with firms estimated to cost 75,000 equivalent per contract or more; and (e) each contract for services of individual consultants estimated to cost 35,000 equivalent per contract or more. All other contracts shall be subject to Post Review by the Bank.
A. **Project Implementation Management**

1. Except as the Bank shall otherwise agree, the Borrower shall be responsible for the implementation of the Project, in a timely and effective manner.

2. The PIU shall be responsible for the coordination of Project procurement and financial management and the Borrower shall maintain the PIU until completion of the Project with sufficient resources, as well as with qualified and competent staff, including staff from AD MEPSO’s Office for International Cooperation.

3. The Borrower’s Division for Grid Operation shall be responsible for substation rehabilitation and upgrade, as well as for new and replacement transmission lines.

4. The Borrower’s Division for System Operation shall be responsible for upgrading of the Energy Management System.

5. The Borrower’s Department of Information Technology and Telecommunications shall be responsible for the introduction of the Financial Management Information System.

B. **Actions by the Borrower**

Except as the Bank shall otherwise agree, the Borrower shall:

1. provide the Bank for its prior review and no objection, on a timely basis and, in any event, prior to the commencement of construction or implementation, with a draft the EMP prepared in accordance with the requirements of the FEAP for each of the Borrower’s proposed additional investments in power lines and substations financed under the Project; and

2. (a) implement the FEAP, the EMPs, and the LAFP in accordance with their respective terms, and apply and implement, as the case may be, the criteria, policies, procedures and arrangements therein respectively set forth; and (b) not amend or waive, or permit to be amended or waived the FEAP, the EMPs, or the LAFP, or any provision of any one thereof.
C. Monitoring and Evaluation

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) submit to the Bank, at the end of each calendar quarter, quarterly progress reports, in form and substance satisfactory to the Bank, including specific environmental reports and land acquisition reports providing results of the monitoring programs undertaken in accordance with the FEAP and the LAFP, as the case may be;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project, the protection of the environment and the achievement of the objectives of the Project during the period following such date; and

(d) review with the Bank, by October 31, 2008, or such later date as the Bank shall request, the report referred to in paragraph (c) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank’s views on the matter.
SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories 1 and 2 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 (including supply and installation) 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 the amount of ₦2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of ₦1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of ₦5,000,000.

2. 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 shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

   (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

   (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the
Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid 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 said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

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 an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the
Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(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.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.