Brodarski Institute
Project Agreement

(Science and Technology Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BRODARSKI INSTITUTE

Dated September 16, 2005
PROJECT AGREEMENT

AGREEMENT, dated September 16, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BRODARSKI INSTITUTE (BI).

WHEREAS (A) by the Loan Agreement of even date herewith between the Bank and the Republic of Croatia (the Borrower), the Bank has agreed to make available to the Borrower a loan in an amount equal to thirty-one million Euro (EUR 31,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that BI agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a Subsidiary Finance Agreement to be entered into between the Borrower and BI, a portion of the proceeds of the Loan provided for under the Loan Agreement will be made available to BI on the terms and conditions set forth in said Subsidiary Finance Agreement;

WHEREAS BI, in consideration of the Bank’s entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) BI declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate
administrative, financial, and managerial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and BI shall otherwise agree, BI shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of goods and consultants’ services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to the Loan Agreement.

Section 2.03. (a) BI shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, BI shall:

(i) prepare, on the basis of guidelines agreed with the Bank, and furnish to the Bank not later than two (2) months before the Closing Date or such later date as may be agreed for this purpose between the Bank and BI, a plan for the future operation of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with BI on said plan.

Section 2.04. BI shall duly perform all its obligations under the Subsidiary Finance Agreement. Except as the Bank shall otherwise agree, BI shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Finance Agreement or any provision thereof.

Section 2.05. (a) BI shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Finance Agreement, and other matters relating to the purposes of the Loan.
(b) BI shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by BI of its obligations under this Agreement and under the Subsidiary Finance Agreement.

ARTICLE III

Management and Operations of BI

Section 3.01. BI shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, environmental and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. BI shall at all times operate and maintain its plant, 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 administrative practices.

Section 3.03. BI shall take out and maintain with responsible insurers, or make other provision acceptable to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. BI shall maintain satisfactory statutes, policies, by-laws, organizational structures, governance boards and councils, business plans, personnel resources, and operating procedures.

ARTICLE IV

Financial Covenants

Section 4.01. (a) BI 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, and adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part A of the Project.
(b) BI shall:

(i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Loan is made, have 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, 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 five (5) months after the end of each such year, or such other period agreed to by the Bank: (A) certified copies of its financial statements for such year or such other period agreed to by the Bank, as so audited; and (B) an opinion on such statements by said auditors, in such scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements and the audit of such financial statements, and concerning said auditors, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, BI shall generate funds from internal sources equivalent to not less than 75% of the annual average of BI’s expenditures incurred during the calendar year 2005; 80% of the annual average of BI’s expenditures incurred during the calendar year 2006; 90% of the annual average of BI’s expenditures incurred during the calendar year 2007; and 100% of the annual average of BI’s expenditures incurred during the calendar year 2008 and thereafter. For the purposes of this Section, the terms “funds from internal sources” and “expenditures” shall be used in accordance with the auditing standards agreed upon with the Bank.

(b) Before November 30 of each year 2005, 2006, 2007, and 2008, BI shall, on the basis of forecasts prepared by BI 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 year and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that BI would not meet the requirements set forth in paragraph (a) for the respective year covered by such review, BI shall promptly take all necessary measures in order to meet such requirements.
ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of BI thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify BI thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party’s address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address: INTBAFRAD
Telex: 248423 (MCI) or
Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of BI, may be taken or executed by the President of the Management Board, or such other person or persons as the President of the Management Board shall designate in writing, and BI shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: /s/ Anand K. Seth
Authorized Representative

BRODARSKI INSTITUTE
By: /s/ Vladimir Koroman
Authorized Representative
SCHEDULE 1

Implementation Program

1. BI shall maintain a Project implementation team with terms of reference, staff and other resources acceptable to the Bank which shall be responsible for the Project implementation activities of BI and BI’s restructuring process.

2. Not later than October 31 of each year during Project execution, commencing from October 31, 2005, BI shall submit to the Bank its annual business plan for the following calendar year, which shall include plans for technical assistance, training, study tours and procurement of goods and operating and action plans and finalize such plans taking into account the Bank’s comments.

3. BI shall implement Part A of the Project in accordance with the provisions of the PIP, and shall not amend, waive or abrogate provision of the PIP without prior consent of the Bank.

4. BI shall, in coordination with the PMU:
   
   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Bank and BI, the carrying out of Part A of the Project and the achievement of the objectives thereof;
   
   (b) furnish to the PMU on or about May 31, 2007, a report (mid-term 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 Part A 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 Part A of the Project and the achievement of the objectives thereof during the period following such date;
   
   (c) review with the PMU and the Bank, by June 30, 2007, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

5. For the purposes of carrying out Part A.3 of the Project, BI shall provide Severance Payments to eligible staff in accordance with the BI Staff Severance Plan, and any material changes to the said plan shall be agreed upon with the Bank.
6. BI shall: (a) not later than October 31, 2005, open an institutional renewal account on terms and conditions agreed with the Bank; (b) maintain said account through quarterly replenishments so that the total amount deposited to the account from BI’s revenues during the period from the calendar year 2005 until 2010 shall not be less than EUR 1,500,000 equivalent; and (c) use the amounts on deposit in said institutional renewal account for the purpose of financing its institutional renewal requirements, under terms and conditions acceptable to the Bank.