Loan Agreement

(Rijeka Gateway Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

PORT OF RIJEKA AUTHORITY

Dated July 12, 2003
LOAN AGREEMENT

AGREEMENT, dated July 12, 2003, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the PORT OF RIJEKA AUTHORITY (the Borrower).

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

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

(C) the Bank has received a letter dated May 22, 2003, from the Guarantor describing a program of actions and policies to support the achievement of the Project’s objectives (the Project Policy Letter) and declaring the Guarantor’s commitment to the execution of the described program;

(D) Parts B.3 and C.3-C.7 of the Project shall be carried out by Hrvatske Ceste d.o.o. (HC) pursuant to the provisions of the Loan Agreement of even date herewith between the Bank and HC (HC Loan Agreement); and Parts C.1 and C.2 of the Project shall be carried out by Hrvatske Autoceste d.o.o. (HAC) pursuant to the Loan Agreement of even date herewith between the Bank and HAC (HAC Loan Agreement);

(E) Parts A.4 (a) and A.6 of the Project will be carried out by Luka Rijeka d.d. (LR), with the Borrower’s assistance and, as part of such assistance, the Borrower will make part of the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to LR, as set forth in this Agreement; 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 agreement of even date herewith between the Bank and LR (the Project 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 October 6, 1999) (the General Conditions) constitute an integral part of this Agreement:

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

(a) “Cooperation Agreement” means an agreement between the City of Rijeka, the Borrower and LR (as defined hereinafter), dated March 15, 2002, setting forth principles and procedures for cooperation between the parties in carrying out the activities under Part A of the Project;

(b) “Environmental Mitigation Plan” means the plan of actions to be undertaken by the Borrower to mitigate potential negative environmental consequences of the Project, adopted by the Ministry of Environmental Protection and Physical Planning on February 2, 2003, as the same may be amended from time to time;

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

(d) “Kuna” means a lawful currency of the Guarantor;


(f) “PIU” means Project Implementation Unit referred to in paragraph 3 of Schedule 5 to this Agreement; and

(g) “Project Account” means an account referred to in paragraph 2 of Schedule 5 to this Agreement;

(h) “Project Agreement” means the agreement between the Bank and LR of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement;

(i) “Project Implementation Plan” means the plan setting forth operational policies and procedures for Project implementation and referred to in paragraph 4(a) of Schedule 5 to this Agreement;
(j) “Project Preparation Advance” means the project preparation advance granted by the Bank to the Guarantor pursuant to the letter agreement signed on behalf of the Bank on November 20, 2001 and on behalf of the Guarantor on March 28, 2002;

(k) “Severance Payments” means the payments to be made by the Borrower to the employees of LR separated pursuant to the Social Program;

(l) “Social Program” means the program adopted by the Government and LR describing the terms and conditions and criteria for voluntary and involuntary separation of the employees of LR, including severance payments thereunder;

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(n) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and LR pursuant to Section 3.01(c) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the Subsidiary Loan Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to LR.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to fifty-five million one hundred thousand Dollars ($55,100,000).

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, works, services and Severance Payments required for Parts A, B.1 and B.2 of the Project described in Schedule 2 to this Agreement 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 Dollars a special deposit account in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay
all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be September 30, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. 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 said 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 Dollars 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%); (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 Guarantor and 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 2.05, 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 Guarantor and the Borrower of the new basis. The 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 on June 15 and December 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall: (i) carry out Parts A, B.1 and B.2 of the Project with due diligence and efficiency and in conformity with appropriate engineering, environmental, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts A, B.1 and B.2 of the Project; and (ii) cause LR to carry out Parts A.4(a) and A.6 of the Project with due diligence and efficiency and in conformity with appropriate engineering, environmental, administrative and financial practices, and shall cause LR to provide, promptly as needed, the funds, facilities, services and other resources required for Parts A.4(a) and A.6 of 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 Parts A, B.1 and B.2 of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) For the purposes of carrying out Parts A.4(a) and A.6 of the Project, the Borrower shall relend the proceeds of the Loan to LR, allocated from time to time to the Categories (3) and (4) in the table set forth in paragraph 1 of Schedule 1 to this Agreement (the Subsidiary Loan), under the Subsidiary Loan Agreement, to be entered into between the Borrower and LR under terms and conditions which shall have been approved by the Bank, including, inter alia, the following provisions:
(i) denomination of the Subsidiary Loan in Kunas and debt service payments under the Subsidiary Loan Agreement in Kunas;

(ii) repayment of the principal amount of the Subsidiary Loan withdrawn and outstanding over the period of fifteen (15) years, including a 5-year grace period; and

(iii) payment of an interest on the amount of the Subsidiary Loan withdrawn and outstanding at an annual rate equal to the rate specified in Section 2.06 of this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, and consultants’ services required for Parts A, B.1 and B.2 of 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.

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 after 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, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect their operations and financial condition, and to register separately the operations, resources and expenditures for and in connection with the carrying out of Parts A, B.1 and B.2 of the Project.

(b) The Borrower shall and shall cause LR to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the
Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited; and (B) an opinion on such statements and a report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

(c) Without limitation upon the provisions of paragraph (b) of this Section, the Borrower shall have the records and accounts for the Special Account for each fiscal year audited in accordance with auditing standards acceptable to the Bank, consistently applied by independent auditors acceptable to the Bank.

(d) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Financial Monitoring Reports or statements of expenditure, the Borrower shall:

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank’s representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in paragraph 1 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a Financial Monitoring Report (FMR), in form and substance satisfactory to the Bank, which:
(i) sets forth sources and uses of funds for Parts A, B.1 and B.2 of 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 Parts A, B.1 and B.2 of 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. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect the Borrower against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor and Dollars) used in its operations.

Section 4.04. (a) 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 shall be: (i) at least 1.0 times the estimated debt service requirements of the Borrower in its fiscal years 2003, 2004 and 2005 on all debt of the Borrower including the debt to be incurred, and (ii) at least 1.3 times the estimated debt service requirements of the Borrower thereafter.

(b) For the purposes of this Section:

(i) The term “debt” means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term “net revenues” means the difference between:
(A) the sum of revenues from all sources related to operations and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

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

(A) revenues from all sources other than those related to operations, including budgetary subsidies earmarked for debt service payments; and

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

(v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) The term “reasonable forecast” means a forecast prepared by the Borrower not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.05. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years ending on December 31, a ratio of total operating expenses to total operating revenues not higher than: 230% in year 2003, 220% in year 2004, 200% in year 2005, 190% in year 2006, 180% in year 2007, 160% in year 2008 and 150% in year 2009.

(b) Before November 30 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet
the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower’s fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis, but excluding interest and other charges on debt.

(ii) The term "total operating revenues" means revenues from all sources related to operations, excluding budgetary subsidies.

(iii) The average current gross value of the Borrower’s fixed assets in operation shall be calculated as one half of the sum of the gross value of the Borrower's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

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

(b) 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 events are specified:

(a) LR shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that LR will be able to perform its obligations under the Project Agreement;

(c) the Charter of LR shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of LR to perform any of its obligations under the Project Agreement; and

(d) a situation shall have arisen which shall make it improbable that the actions and policies set forth in the Project Policy Letter shall be carried out.

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

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (b), (c) and (d) of Section 6.01 of this Agreement shall occur.
ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) a Subsidiary Loan Agreement, satisfactory to the Bank, has been duly executed between the Borrower and LR and has been furnished to the Bank;

(b) the Borrower has opened a Project Account, on terms and conditions, satisfactory to the Bank, with an initial deposit equivalent to $50,000; and

(c) the HAC Loan Agreement and HC Loan Agreement have been executed and delivered and all conditions precedent to their effectiveness or to the right of HAC and HC, respectively, to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled.

Section 7.02. 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 Executive 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:

Port of Rijeka Authority
Riva 1 Street
Rijeka 51 000
Republic of Croatia

Facsimile:
385-51-331-764

For the Bank:
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/ Andrew N. Vorkink
Authorized Representative

RIJEKA PORT AUTHORITY

By /s/ Bojan Hlaca
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 Dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>(a) under Part A.1 (d) of the Project</td>
<td>10,900,000</td>
<td></td>
</tr>
<tr>
<td>(b) under Parts A.1 (a) – (c), B.1 and B.2 of the Project</td>
<td>13,400,000</td>
<td></td>
</tr>
<tr>
<td>(2) Goods for Parts A, B.1 and B.2 of the Project</td>
<td>10,200,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) Consultants’ services and training for Parts A, B.1 and B.2 of the Project, including audit</td>
<td>5,300,000</td>
<td>100% of foreign expenditures and 75% of local expenditures</td>
</tr>
<tr>
<td>(4) Severance Payments under Part A.6 of the Project</td>
<td>7,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Fee</td>
<td>551,000</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
<tr>
<td>(6) Refunding of Project Preparation Advance</td>
<td>1,500,000</td>
<td>Amount due pursuant to Section 2.02 (c) of this Agreement</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>5,749,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$55,100,000</td>
<td></td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule:

   (a) the term “foreign expenditures” means expenditures in the currency of any
country other than that of the Guarantor for goods or services supplied from the territory of any
country other than that of the Guarantor; and

   (b) the term “local expenditures” means expenditures in the currency of the
Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in
respect of: (a) payments made for expenditures prior to the date of this Agreement; and
(b) payments made for expenditures under Category (1)(a) until the Guarantor shall have
submitted to the parliament legislative amendments, satisfactory to the Bank, which shall:
   (i) authorize the Borrower to provide 25-year leases or concessions to private terminal operators; and
   (ii) authorize the Borrower and the City of Rijeka to redevelop maritime domain at Port of Rijeka
for non-maritime purposes.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of
statements of expenditure for expenditures for: (i) goods under contracts not exceeding $400,000
equivalent; (ii) works under contracts not exceeding $5,000,000 equivalent; (iii) services
provided by consulting firms and individuals under contracts not exceeding $100,000 and
$50,000 equivalent, respectively; and (iv) Severance Payments, all under such terms and
conditions as the Bank shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) increase efficiency, through private operators, and improve financial, social and environmental conditions at Port of Rijeka, rehabilitate infrastructure and replace heavy cargo equipment; (b) prepare redeveloping part of Port of Rijeka for urban purposes; and (c) improve international road connections linked to the Rijeka gateway, and the administration of the road sector.

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

Part A: Port Restructuring and Modernization

1. Carrying out rehabilitation and construction works in various parts of Port of Rijeka, including: (a) demolition of outdated multi-storied warehouses and rehabilitation of warehouses #12 and #17; (b) carrying out superstructure works to facilitate terminal leases/concessions; (c) rehabilitation of Vienna berth and repaving and rehabilitation of utility networks; and (d) construction of multi-purpose terminal at Zagrebacko berth.

2. Provision of heavy cargo equipment and of antipollution equipment.


4. Provision of: (a) advisory services for development of a business plan for Luka Rijeka (LR); (b) advisory services for contract preparation and construction supervision; and (c) training for the Borrower’s staff in accounting, financial management and procurement.

5. Development of an Electronic Data Interchange (EDI) system connecting the Borrower and port users.

6. Implementation of staff retrenchment program, including provision of Severance Payments to the LR’s staff separated in accordance with the provisions of the Social Program.

7. Provision of: (a) auditing services for the Project; and (b) financial management hardware and software and training for its utilization.

Part B: Port/City Interface Redevelopment

1. Carrying out preparation works for the transfer of port operations from the Delta and Porto Baros area to the western part of Port of Rijeka.

2. Construction of a passenger terminal and carrying out other works for the development of a waterfront area of the Port of Rijeka.

**Part C: International Road Improvements**

1. Rehabilitation of the Krk bridge.

2. Provision of technical assistance, equipment and training to HAC staff, including (a) assistance in obtaining an ISO 9001 Certificate; (b) services for construction supervision for rehabilitation of the Krk bridge; and (c) training for the HAC PIU staff in financial management, accounting and procurement.


4. Safety improvements for selected road sections with a high incidence of traffic accidents through: (a) traffic management improvements; (b) design improvement, and (c) combined civil engineering-traffic measures.

5. Provision of equipment, software upgrade for the pavement and bridge management systems and technical assistance and training to HC for maintaining of the pavement and bridge management systems.

6. Carrying out an axle load study and installation of equipment (fixed scales) to develop a strategy for implementation of the EU axle load standards.

7. Provision of technical assistance to HC for improvement of its administration of Road Districts, development of multi-year road maintenance contracts and establishment of the road design standards for local roads.

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The Project is expected to be completed by March 31, 2009.
## SCHEDULE 3
### Amortization Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (Expressed in Dollars)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15 beginning December 15, 2008 through June 15, 2018</td>
<td>2,755,000</td>
</tr>
</tbody>
</table>

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

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

   (a) Prequalification

   Bidders for contracts for works costing more than $10,000,000 equivalent per contract shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

   (b) Preference for domestically manufactured goods

   The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor.

   (c) Notification and Advertising

   The invitation to prequalify or bid for each contract estimated to cost $10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.
Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than $5,000,000 but not less than $100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost less than $400,000 but not less than $100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than $100,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than $100,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Additional Provisions Regarding the National Competitive Bidding Procedures

When procuring works in accordance to the procedure referred to in Section I, C.1. of this Schedule, the following procedures shall be followed: (a) a point system of evaluation will not be used; (b) domestic preference will not be applied; (c) international bidders will not be excluded from bidding; (d) the draft bidding documents will be prepared and submitted to the Bank for review and no-objection before any tender is issued; (e) no bids will be rejected at the bid opening; (f) all bids submitted on or before the deadline for submission of bids will be opened and read out at public bid opening; (g) bidders shall demonstrate availability of obtaining securities and reasonable access to credit; (h) bid evaluation criteria shall be pre-disclosed to bidders; and (i) technical specifications shall be clearly written.
Part E: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for: (i) all contracts for goods and works procured in accordance with the provisions of Part B of this Section I; and (ii) the first three contracts for goods and the first three contracts for works procured in accordance with the provisions of Part C.1 of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first three contracts procured in accordance with the provisions of Part C.2 of this Section I, the following procedures shall apply:

(i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.
Section II. Employment of Consultants

Part A: General

Consultants’ services shall be procured in accordance with the provisions of Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants’ services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants’ services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than $200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services estimated to cost less than $200,000 but not less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants’ Qualifications

Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.
4. **Single Source Selection**

Services for specialized training under Parts A.3 – A.7, C.2, C.5 and C.7 of the Project, may, with the Bank’s prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

**Part D: Review by the Bank of the Selection of Consultants**

1. **Selection Planning**

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated from time to time during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants’ services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. **Prior Review**

   (a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of $100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

   (b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of $50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. **Post Review**

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.
SCHEDULE 5

Implementation Program

1. 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 agreed upon between the Borrower and the Bank, the carrying out of the Project and the achievement of the objectives thereof;

   (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2006, a report (Mid-term Report), 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 and the achievement of the objectives thereof during the period following such date; and

   (c) review with the Bank, by June 30, 2006, or such later date as the Bank shall request, the Mid-term Report, 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.

2. The Borrower shall maintain a Project Account, with a minimum balance equivalent to $50,000 and shall replenish said account on a semi-annual basis to finance Project expenditures.

3. (a) The Borrower shall maintain the PIU during execution of the Project, with adequate staffing and resources and which shall be responsible for procurement planning, scheduling, monitoring and reporting, disbursements and internal controls, maintenance of project accounts and preparation of project management reports and Financial Monitoring Reports.

   (b) The PIU shall be responsible for making Severance Payments under Part A.4 (a) implemented by the LR, upon receipt of the payment requests duly authorized by LR and the Borrower, and said payments shall be made in accordance with the terms and procedures set forth in the Project Implementation Plan.

4. The Borrower shall:

   (a) implement Parts A, B.1 and B.2 of the Project in accordance with the Project Implementation Plan agreed upon between the Bank and the Borrower, as such Project Implementation Plan may be amended from time to time upon the agreement between the Bank and the Borrower;

   (b) take all necessary measures to ensure that Parts A, B.1 and B.2 of the Project are carried out in accordance with the provisions of the Environmental Management Plan; and
(c) implement Part B.2 of the Project in accordance with the provisions of the Cooperation Agreement.

5. The Borrower shall take or cause to be taken all necessary measures, including the measures set forth in the Project Policy Letter, to improve productivity of port operations and to achieve: (a) an annual increase not less than seven percent (7%) in total through/out in Port of Rijeka, commencing from the calendar year 2004 until completion of the Project; and (b) an annual increase not less than five percent (5%) in passenger traffic, commencing from the calendar year 2004 until completion of the Project.

6. Not later than December 31, 2006, the Borrower shall award a contract and initiate contract negotiations with a company selected through a public competitive bidding process conducted in accordance with the procedures satisfactory to the Bank, to redevelop part of the maritime domain of Port of Rijeka for urban purposes.
SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

   (a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

   (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for Parts A, B.1 and B.2 of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

   (c) the term "Authorized Allocation" means an amount equal to $5,000,000 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 an amount equal to $2,500,000 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 exceeding $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
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 with respect to the Project, 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 without the Bank's prior written consent.
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.