

No. 10855

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
YUGOSLAVIA**

Guarantee Agreement—*Telecommunications Project* (with annexed General Conditions Applicable to Loan and Guarantee Agreements, Loan Agreement between the Bank and the Yugoslav Investment Bank and Project Agreement between the Bank and the Community of Yugoslav Posts, Telegraphs and Telephones). Signed at Washington on 20 February 1970

Authentic text: English.

Registered by the International Bank for Reconstruction and Development on 2 December 1970.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
YUGOSLAVIE**

Contrat de garantie — *Projet relatif aux télécommunications* (avec, en annexe, les Conditions générales applicables aux contrats d'emprunt et de garantie, le Contrat d'emprunt entre la Banque et la Banque yougoslave d'investissement et le Contrat relatif au Projet entre la Banque et la Compagnie des postes, télégraphes et téléphones yougoslaves). Signé à Washington le 20 février 1970

Texte authentique : anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 2 décembre 1970.

GUARANTEE AGREEMENT¹

AGREEMENT, dated February 20, 1970, between SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by the Loan Agreement of even date herewith² between the Bank and Yugoslav Investment Bank (hereinafter called the Borrower) the Bank has agreed to make to the Borrower a loan in various currencies equivalent to forty million dollars (\$40,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows:

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated January 31, 1969,² with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Section 1.01 of the Loan Agreement (said General Conditions Applicable to Loan and Guarantee Agreements, as so modified, being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Guarantee Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

¹ Came into force on 31 August 1970, upon notification by the Bank to the Government of Yugoslavia.

² See p. 20 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of its other obligations under this Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan and the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds prior to their maturity, all as set forth in the Loan Agreement and in the Bonds.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions to secure a debt maturing not more than one year after its date.

The term “assets of the Guarantor” as used in this Section includes assets of the Guarantor or of any agency of the Guarantor including assets of the National Bank of Yugoslavia or any other institution performing the functions of a central bank for the Guarantor.

If any lien shall be created on any assets of any of the Guarantor’s political subdivisions or of any agency of any such political subdivisions as security for any external debt, the Guarantor, except as the Bank shall otherwise agree, shall give to the Bank an equivalent lien to secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Guarantor, provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Guarantee Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The Guarantor covenants that it will not take, or cause or permit to be taken any action which would prevent or interfere with the performance by the Borrower, the CYPTT and the PTT Enterprises of any of the respective covenants, agreements and obligations of the Borrower, the CYPTT and the PTT Enterprises in the Loan Agreement, the Subsidiary Loan Agreements and the Project Agreement¹ contained and will take or cause to be taken all reasonable action necessary or appropriate to enable the Borrower, the CYPTT and the PTT Enterprises to perform such covenants, agreements and obligations.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the General Conditions, its guarantee on the Bonds to be executed and delivered by the Borrower. The Federal Secretary of Finance of the Guarantor and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Guarantor for the purposes of Section 8.10 of the General Conditions.

¹ See p. 40 of this volume.

Article V

Section 5.01. The Federal Secretary of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 10.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Guarantor:

Savezni Sekretarijat za Finansije
Prvi Bulevar 104
Beograd, Yugoslavia

Alternative address for cables:

Savezni Sekretarijat za Finansije
Prvi Bulevar 104
Beograd, Yugoslavia

For the Bank:

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

Alternative address for cables:

Intbafrad
Washington, D.C.

IN WITNESS THEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

Socialist Federal Republic of Yugoslavia:

By BOGDAN CRNOBRNJA
Authorized Representative

International Bank for Reconstruction and Development:

By J. BURKE KNAPP
Vice-President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
GENERAL CONDITIONS, DATED 31 JANUARY 1969
GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS
[Not published herein. See *United Nations, Treaty Series*, vol. 691, p. 300.]

LOAN AGREEMENT

AGREEMENT, dated February 20, 1970, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and YUGOSLAV INVESTMENT BANK (hereinafter called the Borrower).

WHEREAS (A) The Borrower has requested the Bank to assist in the financing of the foreign exchange cost of the Project as described in Schedule 3 to this Agreement by making the Loan as hereinafter provided;

(B) The Project will be carried out by certain PTT Enterprises (as this term is defined in Section 1.02 (c) of this Agreement) (i) with the assistance of the Borrower who, as part of such assistance, will make available to such PTT Enterprises the proceeds of the Loan as hereinafter provided, and (ii) under the supervision and coordination of the CYPTT (as this term is defined in Section 1.02 (b) of this Agreement);

(C) Each of the PTT Enterprises carrying out the Project has authorized the CYPTT for and on its behalf (i) to negotiate a Subsidiary Loan Agreement (as this term is defined in Section 1.02 (f) of this Agreement) between the Borrower and such PTT Enterprise carrying out the Project providing for the terms and conditions under which the proceeds of the Loan shall be made available to such PTT Enterprises, and (ii) to negotiate and to enter into a Project Agreement (as this term is defined in Section 1.02 (d) of this Agreement) between the Bank and the CYPTT providing, *inter alia*, for the terms and conditions under which the Project shall be carried out by such PTT Enterprises under the supervision of the CYPTT;

(D) The Bank is willing to make a loan available upon the terms and conditions set forth hereinafter and in the Project Agreement of even date herewith¹ between the CYPTT and the Bank;

NOW THEREFORE the parties hereto hereby agree as follows:

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969,² with the same force and effect as if they were fully set forth herein, subject, however, to the following modification thereof (said General Condi-

¹ See p. 40 of this volume.

² See above.

tions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions):

The words “and the Project Agreement” are inserted after the words “the Loan Agreement” in Section 9.03 of the General Conditions.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Yugoslav Investment Bank” means Jugoslavenska Investiciona Banka, and institution established by Decree No. 30 dated July 18, 1956, and operating under the Law on Banks and Credit Operations of March 15, 1965, as amended.

(b) “CYPTT” means Zajednica Jugoslovenskih posta, telegrafa i telefona (Community of Yugoslav Posts, Telegraphs and Telephones).

(c) “PTT Enterprise” means any one of the Preduzeca postanskog, telegrafskog i telefonskog saobracaja (Post, Telegraph and Telephone Enterprises) members of the CYPTT.

(d) “Project Agreement” means the agreement of even date herewith between the Bank and the CYPTT and shall include any supplemental agreements thereto and amendments thereof.

(e) “Subsidiary Loan Agreement” means any of the loan agreements to be entered into between the Borrower and the PTT Enterprises carrying out the Project pursuant to Section 5.01 (a) of this Agreement, as the same shall be amended from time to time with the approval of the Bank.

(f) “Subsidiary Loan” means the Loan provided for in a Subsidiary Loan Agreement.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to forty million dollars (\$40,000,000).

Section 2.02. (a) The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan.

(b) The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in this Loan Agreement and in accordance with the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Bank and the Borrower.

Section 2.03. The Borrower shall be entitled to withdraw from the Loan Account in respect of the reasonable cost of goods or services required for the Project and to be financed under this Loan Agreement:

- (i) such amounts as shall have been paid (or, if the Bank shall so agree, shall be required to meet payments to be made) in currencies other than the currency of the Guarantor for goods produced in, or services supplied from, territories other than the territories of the Guarantor; and
- (ii) the equivalent of a percentage to be established from time to time by agreement between the Borrower and the Bank of such amounts as shall have been paid (or, if the Bank shall so agree, shall be required to meet payments to be made) for contracts payable exclusively in the currency of the Guarantor and covering goods produced in, or services supplied from, the territories of the Guarantor, such percentage to represent the estimated foreign exchange component of such goods or services.

Section 2.04. It is hereby agreed, pursuant to Section 5.01 of the General Conditions, that withdrawals from the Loan Account may be made on account of payments in the currency of the Guarantor, or for goods produced in, or services supplied from, the territories of the Guarantor.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest at the rate of seven per cent (7%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied in accordance with the provisions of this Loan Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the procedures set forth in the Project Agreement.

Section 3.03. Except as the Bank may otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

Section 4.02. The General Manager of the Borrower and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall enter into a Subsidiary Loan Agreement satisfactory to the Bank with each PTT Enterprise carrying out the Project providing for (i) the making out of the proceeds of the Loan of a Subsidiary Loan to such PTT Enterprise on terms and conditions satisfactory to the Borrower and to the Bank and in such an amount as shall be required to carry out the part of the Project (A) located in the area served by, or (B) to be financed by, such PTT Enterprise, and (ii) the carrying out of such part of the Project by such PTT Enterprise pursuant to the provisions in this Agreement and in the Project Agreement contained.

(b) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such a manner as to protect the interests of the Borrower and the Bank, and, except as the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving any provision of any Subsidiary Loan Agreement.

(c) Whenever there is reasonable cause to believe that the funds available to any PTT Enterprise carrying out the Project will be inadequate to meet the estimated expenditures required for carrying out the part of the Project (A) located in the area served by, or (B) to be financed by, such PTT Enterprise, the Borrower shall make arrangements, satisfactory to the Bank, promptly to provide such PTT Enterprise, or cause such PTT Enterprise to be provided with, such funds as are needed to meet such expenditures.

Section 5.02. The Borrower (i) shall maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the Loan, to disclose the use thereof in the Project, and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower and (ii) shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the Subsidiary Loans and the management, operations and financial condition of the Borrower.

Section 5.03. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance by the Borrower of its obligations under the Loan Agreement, the management, operations and financial condition of the Borrower and other matters relating to the purposes of the Loan, and the maintenance and service thereof, and each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

(b) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Borrower of its obligations under the Loan Agreement.

Section 5.04. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds and that in the creation of such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

Section 5.05. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Loan Agreement, the Guarantee Agreement,¹ the Project Agreement or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.06. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Loan Agreement, the Guarantee Agreement, the Project Agreement or the Bonds.

Section 5.07. If the Borrower shall cancel any portion of any Subsidiary Loan to be made to any of the PTT Enterprises carrying out the Project under the respective Subsidiary Loan Agreement, the Borrower shall promptly notify the Bank and the Bank may, at its option, cancel a corresponding amount of the portion of the Loan allocated to such Subsidiary Loan.

Section 5.08. Notwithstanding the provision in Section 2.07 of this Agreement, if any of the PTT Enterprises carrying out the Project shall repay in advance of maturity, for any reason, all or any portion of the principal amount of the Subsidiary Loan made by the Borrower to such PTT Enterprise under the respective Subsidiary Loan Agreement, the Borrower shall, upon receipt of such repayment from such PTT Enterprise, prepay a corresponding amount of the maturities of the Loan then outstanding. All the provisions of the General Conditions relating to the repayment in advance of maturity, including the requirement of notice, shall be applicable to any

¹ See p. 12 of this volume.

repayment by the Borrower in accordance with this Section, provided, however, that partial payment of the principal amount of any one maturity shall be permitted to the extent required to complete such proportionate repayment.

Article VI

REMEDIES OF THE BANK

Section 6.01. If any event specified in Section 7.01 of the General Conditions shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower and the Guarantor declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately together with the interest and other charges thereon and upon any such declaration such principal, interest and charges shall become due and payable immediately, anything to the contrary in this Loan Agreement or in the Bonds notwithstanding.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified:

- (a) The CYPTT shall have failed to perform any covenant or agreement under the Project Agreement.
- (b) A default shall have occurred on the part of any PTT Enterprise in the performance of any covenant or agreement under the Project Agreement or under the respective Subsidiary Loan Agreement, and such default shall have continued for a period of ninety days after notice thereof shall have been given by the Bank to such PTT Enterprise, to the Borrower and to the CYPTT.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 11.01 of the General Conditions:

- (a) Each of the Subsidiary Loan Agreements, in terms satisfactory to the Bank, shall have been duly executed and delivered by the Borrower and by the respective PTT Enterprise carrying out the Project and shall have become effective in accordance with its terms, subject only to the effectiveness of this Loan Agreement.
- (b) The Project Agreement shall have been duly authorized or ratified by the assembly of the CYPTT and shall have become effective in accordance with its terms, subject only to the effectiveness of this Loan Agreement.
- (c) The tariffs and fees proposed by the CYPTT and set forth in Schedule 2 to the Project Agreement shall have been approved by all competent authorities.

- (d) The initial determination by the CYPTT of the specific rates of return for the telegraph and telephone services of each individual PTT Enterprise, as required by the provisions of Section 2.10 (b) (i) of the Project Agreement, shall have been duly authorized or ratified by the assembly of the CYPTT and shall have become binding on each such PTT Enterprise.

Section 7.02. The following are specified as additional matters, within the meaning of Section 11.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

- (a) That each of the Subsidiary Loan Agreements has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and the respective PTT Enterprise and constitutes a valid and binding obligation of each of the parties thereto in accordance with its terms;
- (b) That the Project Agreement has been duly authorized or ratified by the assembly of the CYPTT and constitutes a valid and binding obligation of the CYPTT and of the PTT Enterprises in accordance with its terms;
- (c) That the tariffs and fees proposed by the CYPTT and set forth in Schedule 2 to the Project Agreement have been approved by all competent authorities; and
- (d) That the initial determination by the CYPTT of the specific rates of return for the telegraph and telephone services of each individual PTT Enterprise, as required by the provisions of Section 2.10 (b) (i) of the Project Agreement, has been duly authorized or ratified by the assembly of the CYPTT and has become binding on each such PTT Enterprise.

Section 7.03. The date of June 30, 1970, is hereby specified for the purposes of Section 11.04 of the General Conditions.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1975 or such other date as shall be agreed between the Bank and the Borrower.

Section 8.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Bank:

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

Alternative address for cables:

Intbafrad
Washington, D.C.

For the Borrower:

Yugoslav Investment Bank
Terazije 9
Beograd, Yugoslavia

Alternative address for cables:

Investbanka
Beograd

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development:

By J. BURKE KNAPP
Vice-President

Yugoslav Investment Bank:

By PAVLE PAVLOVIC
Authorized Representative

SCHEDULE 1

ALLOCATION OF PROCEEDS OF LOAN

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
I. International telephone and telegraph/telex exchange equipment and installation in Belgrade and Zagreb	4,000,000
II. Satellite ground station equipment, installation and accessories ...	2,800,000
III. Radio relay links equipment, installation and accessories for main and spur routes of long distance network	9,800,000
IV. Multiplex carrier equipment, auxiliary equipment and accessories in transmission stations of the long distance network ...	17,500,000
V. Coaxial cable Titograd-Titovo Uzice and line and control equipment for eleven coaxial cables	2,500,000
VI. Specialized vehicles and ancillary transport equipment, tools and mechanical aids, test-, measuring- and servicing-equipment for installation and maintenance	700,000
VII. Engineering services, training aids and training services	200,000
VIII. Unallocated	2,500,000
TOTAL	40,000,000

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories I to VII shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category will be reallocated by the Bank to Category VIII.

2. If the estimate of the cost of the items included in any of the Categories I to VII shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Loan will be allocated by the Bank, at the request of the Borrower, to such Category from Category VIII, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of the cost of the items in the other Categories.

SCHEDULE 2

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
November 15, 1975	735,000	November 15, 1983	1,275,000
May 15, 1976	760,000	May 15, 1984	1,320,000
November 15, 1976	785,000	November 15, 1984	1,365,000
May 15, 1977	815,000	May 15, 1985	1,415,000
November 15, 1977	845,000	November 15, 1985	1,460,000
May 15, 1978	875,000	May 15, 1986	1,515,000
November 15, 1978	905,000	November 15, 1986	1,565,000
May 15, 1979	935,000	May 15, 1987	1,620,000
November 15, 1979	970,000	November 15, 1987	1,680,000
May 15, 1980	1,000,000	May 15, 1988	1,735,000
November 15, 1980	1,035,000	November 15, 1988	1,800,000
May 15, 1981	1,075,000	May 15, 1989	1,860,000
November 15, 1981	1,110,000	November 15, 1989	1,925,000
May 15, 1982	1,150,000	May 15, 1990	1,995,000
November 15, 1982	1,190,000	November 15, 1990	2,055,000
May 15, 1983	1,230,000		

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents as determined for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions:

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	1%
More than three years but not more than six years before maturity	2%
More than six years but not more than eleven years before maturity	3 1/4 %
More than eleven years but not more than sixteen years before maturity	5%
More than sixteen years but not more than nineteen years before maturity	6%
More than nineteen years before maturity	7%

SCHEDULE 3

DESCRIPTION OF THE PROJECT

The Project is part of the 7-year development program 1969-1975 as approved by the assembly of the CYPPTT on July 10, 1968, and consists of the main long distance transit and international systems to be constructed from 1970 through 1974 and to be financed by the PTT Enterprises of Belgrade, Zagreb, Ljubljana, Sarajevo, Novi Sad, Rijeka, Nis, Split, Titograd, Pristina, Mostar, Banja Luka, Titovo-Uzice, Osijek, Kragujevac, Tuzla and Skoplje as follows:

- (A) Installation of international telephone exchanges for approximately 1,600 circuits and telegraph/telex exchanges for approximately 1,100 circuits in Belgrade and Zagreb, both equipped for automatic service and using CCITT signalling systems compatible with the ones used in Yugoslavia and other European countries.
- (B) Installation of a satellite ground station with one large antenna of a diameter of about 30 m using the INTELSAT space stations.
- (C) Installation of high capacity 1,800- and 960/300 channel microwave radio relay systems for main and branching long distance routes totalling approximately 3,000 kms, including interconnection links with the satellite ground station and with Austria, Italy and Greece, the interconnection link with Greece to include one channel for television transmission.
- (D) Installation of carrier multiple equipment in transmission stations of the long distance network, including line, multiplexing and auxiliary transmission equipment for terminal and transit carrier systems for approximately 30,000 long distance telephone channels between transit exchanges and between transit and other principal interurban exchanges in the 17 transit areas.
- (E) Installation of a coaxial cable network, including a coaxial cable Titograd-Titovo Uzice (approximately 250 kms) completely equipped, as well as line repeaters, gas and line control equipment for eleven coaxial cables (approximately 1,200 kms), including a link with Hungary.
- (F) Installation of transit telephone exchanges equipped for subscriber distant dialling and termination of about 30,000 long distance circuits, with signalling system, in 17 main transit centers.
- (G) Installation of cable, radio and transmission systems extended and redistributed from existing systems between transit and other principal interurban exchanges of the transit areas.
- (H) Miscellaneous other works, provision of ancillary equipment and common facilities for the construction of the Project.

The Project is expected to be completed by December, 1974.

PROJECT AGREEMENT

AGREEMENT, dated February 20, 1970, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and the COMMUNITY OF YUGOSLAV POSTS, TELEGRAPHS AND TELEPHONES (hereinafter called the CYPTT) acting on its own behalf and on behalf of the PTT Enterprises (as defined in the Loan Agreement).

WHEREAS by a loan agreement of even date herewith¹ (hereinafter called the Loan Agreement) between the Bank and the Yugoslav Investment Bank (hereinafter called the Borrower), the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to forty million dollars (\$40,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that the CYPTT agree to undertake on its own behalf and on behalf of the PTT Enterprises certain obligations toward the Bank as hereinafter in this Project Agreement set forth; and

WHEREAS the CYPTT, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

Article I

DEFINITIONS

Section 1.01. Wherever used in this Project Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement and in the General Conditions¹ (as so defined) shall have the respective meanings therein set forth.

Article II

PARTICULAR COVENANTS

Section 2.01. The PTT Enterprises carrying out the Project shall do so with due diligence and efficiency, in conformity with sound administrative, financial, engineering and public utility practices, and under the supervision and coordination of the CYPTT.

Section 2.02. (a) The CYPTT or the PTT Enterprises carrying out the Project shall furnish or cause to be furnished to the Bank, promptly upon their preparation, the plans, specifications and construction schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

(b) The CYPTT (i) shall maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of all PTT Enterprises; (ii) shall enable, or take such steps as may be necessary to enable the Bank's representatives to

¹ See p. 20 of this volume.

inspect the Project, such goods, and all PTT Enterprises and any relevant records and documents; and (iii) shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the Subsidiary Loans, such goods and services, and the management, operations and financial condition of the CYPTT and the PTT Enterprises.

(c) Each PTT Enterprise shall maintain records adequate to reflect its financial condition in accordance with consistently maintained sound accounting practices.

Section 2.03. (a) The Bank, the CYPTT and the PTT Enterprises shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank, the CYPTT and the PTT Enterprises shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance by the CYPTT and the PTT Enterprises of their obligations under this Project Agreement, the management, operations and financial condition of the CYPTT and the PTT Enterprises and any other matters relating to the purposes of the Loan, and each of them shall furnish to the others all such information as they shall reasonably request with regard to the Project.

(b) The CYPTT shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the performance by the CYPTT and the PTT Enterprises of their obligations under this Project Agreement.

Section 2.04. (a) Except as the Bank may otherwise agree, the CYPTT and the PTT Enterprises carrying out the Project shall cause all goods and services financed out of the proceeds of the Subsidiary Loans to be used exclusively in carrying out the Project.

(b) Except as the Bank shall otherwise agree, (i) the goods and services to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the *Guidelines for Procurement under World Bank Loans and IDA Credits*, published by the Bank in August 1969, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 1 to this Project Agreement or as shall be agreed between the Bank and the CYPTT, and (ii) contracts for the procurement of such goods and services shall be subject to the prior approval of the Bank.

Section 2.05. (a) The CYPTT and the PTT Enterprises shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amount as shall be consistent with sound practices.

(b) Without limiting the generality of the foregoing, the CYPTT or the PTT Enterprises carrying out the Project shall insure the imported goods to be financed out of the proceeds of the Subsidiary Loans against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation, and any indemnity under such insurance shall be payable in a currency freely usable by the CYPTT or the PTT Enterprises carrying out the Project to replace or repair such goods.

Section 2.06. The PTT Enterprises carrying out the Project shall duly perform all their obligations under the respective Subsidiary Loan Agreements and shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving any provision of such Subsidiary Loan Agreements.

Section 2.07. (a) The PTT Enterprises shall conduct their affairs in accordance with sound business, public utility and financial practices under the supervision of qualified and experienced management and shall operate, maintain, renew and repair their plants, equipment and property, including the Project, in accordance with sound engineering and public utility practices.

(b) The CYPTT shall cause the PTT Enterprises to take all action reasonably required to maintain and renew all rights, powers, privileges and franchises necessary or useful in the conduct of their business.

(c) Except as the Bank shall otherwise agree, to PTT Enterprise shall sell, lease, transfer, or otherwise dispose of its properties or assets which shall be required for the efficient carrying on of its business.

Section 2.08. (a) No later than January 1, 1971, each PTT Enterprise shall introduce separate accounts for postal and telecommunication services. For the fiscal year 1971 and for subsequent fiscal years, each PTT Enterprise shall have its annual financial statements prepared and audited on the basis of such separate accounts.

(b) Each PTT Enterprise shall transmit to the CYPTT copies of its financial statements promptly after their preparation but not later than two months after the close of the fiscal year.

(c) Promptly after receipt of the copies of the financial statements referred to in paragraph (b) above, the CYPTT shall (i) consolidate such statements according to the methods agreed upon between the Bank and the CYPTT, and (ii) no later than four months after the end of the fiscal year, transmit to the Bank such consolidated statements.

(d) Within six months after the close of the fiscal year, the CYPTT shall forward to the Bank an auditor's report covering the financial statements of each PTT Enterprise and the consolidated financial statements prepared by the CYPTT.

Section 2.09. Except as the Bank shall otherwise agree, (i) the PTT Enterprises shall not use, and (ii) the CYPTT shall not permit the PTT Enterprises to use, assets or revenues of the telegraph and telephone operations in an aggregate amount exceeding in any fiscal year 100 million Yugoslav Dinars for all PTT Enterprises in order to subsidize current or capital costs of the postal operations. Whenever such assets or revenues in an aggregate amount exceeding 50 million Yugoslav Dinars in any fiscal year shall be so used, then the CYPTT shall promptly inform the Bank thereof.

Section 2.10. (a) Except as the Bank shall otherwise agree, the PTT Enterprises shall establish and maintain tariffs and fees for telegraph and telephone services, and

shall take all other action which may be necessary or appropriate, so as to provide revenues sufficient to produce an individual annual rate of return for each PTT Enterprise of between 10% and 25%, all such individual annual rates of return, as so determined, to produce an overall annual rate of return for all PTT Enterprises on their consolidated average net fixed assets of (i) not less than 18% for the years 1970 through 1975 and (ii) not less than 15% thereafter.

(b) (i) The CYPTT shall determine the individual rate of return for telegraph and telephone services of each PTT Enterprise required to achieve the overall annual rate of return provided by paragraph (a) of this Section, (ii) each PTT Enterprise undertakes to achieve its rate of return as so determined, (iii) the Bank shall promptly be informed about any amendment of such individual rates of return subsequent to their original determination, and (iv) except as the Bank shall otherwise agree, no later than January 1, 1971, each PTT Enterprise shall introduce tariffs and fees not lower than the tariffs and fees set forth in Schedule 2 to this Agreement.

(c) For the purposes of this Section: (i) the rate of return in respect of each fiscal year shall be computed by relating the net operating income from telegraph and telephone operations of each PTT Enterprise (or of all PTT Enterprises, as the case may be) for that fiscal year to the average of the depreciated value of the fixed telephone and telegraph assets in operation of such PTT Enterprise (or of all PTT Enterprises, as the case may be); (ii) the "net operating income" will be determined by subtracting from gross revenues all operating and administrative expenses, including adequate maintenance, labor expenses, taxes (if any) and a 5% provision for depreciation on all depreciable assets computed in accordance with the straight-line method; and (iii) "average depreciated value of fixed assets" will be the value of such assets less accumulated depreciation at the beginning and at the end of that fiscal year, all as determined in accordance with methods satisfactory to the Bank.

Section 2.11. (a) Except as the Bank shall otherwise agree, no PTT Enterprise shall incur any long-term debt if the net operating revenues of such PTT Enterprise for the past fiscal year or any twelve consecutive months immediately preceding the month in which such debt is to be incurred shall be less than one and one-half times the maximum debt service requirements on all such PTT Enterprise's debt (including the debt to be incurred) in any succeeding fiscal year (including the fiscal year in which such debt is to be incurred).

(b) If any PTT Enterprise shall incur any long-term debt and, as a result thereof, its net operating revenues referred to in paragraph (a) above shall be less than two times its maximum debt service requirements referred to in paragraph (a) above, then such PTT Enterprise shall promptly inform the CYPTT thereof.

(c) For the purposes of this Section:

(i) The term "long-term debt" means all debt incurred for telecommunications operations, including debt assumed or guaranteed by such PTT Enterprise and maturing by its terms more than one year after the date on which it is incurred;

- (ii) Debt shall be deemed to be incurred (A) under a contract or loan agreement on the date such contract or loan agreement providing for such debt is entered into and (B) under a guarantee agreement, on the date the agreement providing for such guarantee is entered into;
- (iii) The term “net operating revenues” shall mean gross revenues accruing from such PTT Enterprise’s telecommunications operations adjusted to take account of rates in effect at the time of incurrence of debt even though they were not in effect during the twelve consecutive months to which such revenues relate, less operating and administrative expenses chargeable to telecommunications operations, including labor expense, maintenance cost, provision for taxes, if any, but before provision for depreciation, interest and other expenses chargeable to telecommunications operations;
- (iv) The term “debt service requirements” shall mean the aggregate amount of amortization, interest and other charges on long-term debt; and
- (v) Whenever it shall be necessary to value in the currency of the Guarantor debt payable in another currency, such valuation shall be made on the basis of the rate of exchange at which such other currency is obtainable by the PTT Enterprise, at the time such valuation is made, for the purposes of servicing such debt, or if such other currency is not so obtainable, at the rate of exchange that will be reasonably determined by the Bank.

Article III

EFFECTIVE DATE; TERMINATION

Section 3.01. (a) This Project Agreement shall come into force and effect on the Effective Date.

(b) If, pursuant to Section 11.04 of the General Conditions, the Loan Agreement shall terminate, this Project Agreement and all obligations of the parties hereunder shall also terminate and the Bank shall promptly notify the CYPTT thereof.

Section 3.02. If and when the entire principal amount of the Loan shall have been paid by the Borrower (or shall have been cancelled), together with all premiums, if any, on the prepayment of any portion of the Loan or the redemption of all Bonds which shall have been called for redemption and all interest and other charges which shall have accrued on the Loan and the Bonds, this Agreement and all obligations of the Bank and the CYPTT hereunder shall forthwith terminate.

Article IV

MISCELLANEOUS PROVISIONS

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project 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 or radiogram to the party to which it is required or permitted to be

given or made at its 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, N.W.
Washington, D.C. 20433
United States of America

Alternative address for cables:

Intbafrad
Washington, D.C.

For the CYPPT:

Zajednica Jugoslavenskih
Posta, Telegrafa i Telefona
Palmoticeva 2
Beograd, Yugoslavia

Alternative address for cables:

Gentel
Beograd

IN WITNESS WHEREOF, the parties hereto have caused this Project Agreement to be signed in their respective names by their representatives thereunto duly authorized and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development:

By J. BURKE KNAPP
Vice-President

Community of Yugoslav Posts, Telegraphs and Telephones:

By PRVOSLAV VASILJEVIC
Authorized Representative

SCHEDULE 1

PROCUREMENT PROCEDURES

Pursuant to Section 2.04 (b) of this Project Agreement, the following procedures, supplementary to those set forth in the Guidelines referred to therein, shall apply to the procurement of goods to be purchased out of the proceeds of the Loan:

1. Identical or similar items shall be grouped together wherever practicable for the purposes of bidding and procurement, and such grouping of items shall be subject to the approval of the Bank.

2. For contracts involving an amount of \$80,000 equivalent or more, the following procedures shall apply:

- (a) Before bids are invited, the Borrower shall submit to the Bank for approval the invitations to bid, specifications and all other tender documents, together with a description of advertising procedures.
- (b) After bids have been received and analyzed, the bid analysis and recommendations for award, together with the reasons for such recommendation, will be submitted by the Borrower to the Bank for approval prior to the award or the issuance of a letter of intent.
- (c) If the final contract or the letter of intent is to differ substantially from the terms and conditions contained in the respective documents approved by the Bank under paragraphs (a) and (b) above, the text of the proposed changes will be submitted to the Bank for its review and approval prior to the execution of such contract or issuance of such letter of intent.
- (d) One conformed copy of any letter of intent issued and of any contract executed under this paragraph 2 shall be sent to the Bank promptly upon its issuance or execution.

3. For contracts involving an amount of less than \$80,000 equivalent, the Borrower shall furnish to the Bank any invitation to bid, bid evaluation and report and copy of signed contract, and any other material relevant thereto that the Bank shall request, promptly after execution of any such contract and prior to the submission to the Bank of the first application for withdrawal in respect to such contract.

4. Pursuant to paragraph 2.8 of the Guidelines for Procurement referred to in Section 3.02 of this Agreement, the Bank agrees that where bids are submitted by manufacturers, established in the territories of the Guarantor, of equipment, materials or supplies manufactured or processed within the territories of the Guarantor to a substantial extent as determined by the Bank (Local Bid), the following rules shall be observed for the purpose of comparing any Local Bid as thus defined to any bid other than a Local Bid (Foreign Bid):

- (a) All customs duties and similar levies shall first be excluded from the total of any Foreign Bid;
- (b) The portion of any Foreign Bid representing the C.I.F. price of the goods shall then be increased by 15% thereof or the applicable amount of such duties or levies as they generally apply to non-exempt purchasers in the territories of the Guarantor for the importation of such goods, whichever is lower;
- (c) In cases where it is recommended to award a contract to a Local Bid, the bid analysis shall state the amount of duties or levies referred to in (b) above and the proportion of the C.I.F. price of such goods offered under the lowest evaluated

Foreign Bid represented by such amount;

- (d) The figure resulting from (b) above shall be deemed to be the price of the Foreign Bid for purposes of comparison with the Local Bid; and
- (e) If the price of the goods offered by the lowest evaluated Local Bid is equal to or lower than the comparison price of the lowest evaluated Foreign Bid arrived at under (b) and (c) above, and other terms and conditions are satisfactory under the principles set forth in Part III of the Guidelines for Procurement, then such Local Bid may be considered the lowest evaluated bid for purposes of paragraph 3.9 of the said Guidelines for Procurement.

SCHEDULE 2

TARIFFS AND FEES

- (1) Uniform long distance tariffs and uniform pulse rates for all enterprises. Such pulse rate will not be less than Din -.30 per pulse.
 - (2) Reduced tariffs for low traffic periods such as nights and weekends.
 - (3) Installation fees and charges for connecting new main telephone subscribers amounting in the aggregate to at least the cost of the line between the terminal distribution point of the local network and the telephone set of such subscriber.
 - (4) A minimum rental of Din 30 per month and per main telephone line.
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