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15/11/07

EXECUTION COPY

(Operation Number 36651)

GUARANTEE AGREEMENT

(Belgrade Highway and Bypass)

between

REPUBLIC OF SERBIA

and

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 15 November 2007

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GUARANTEE AGREEMENT

AGREEMENT dated 15 November 2007 between **REPUBLIC OF SERBIA** (the "Guarantor") and **EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT** (the "Bank").

PREAMBLE

WHEREAS, the Guarantor and PUBLIC ENTERPRISE "ROADS OF SERBIA" have requested assistance from the Bank in the financing of part of the Project;

WHEREAS, pursuant to a loan agreement dated the date hereof between PUBLIC ENTERPRISE "ROADS OF SERBIA" as Borrower and the Bank (the "Loan Agreement" as defined in the Standard Terms and Conditions), the Bank has agreed to make a loan to the Borrower in the amount of eighty million Euro (EUR 80,000,000), subject to the terms and conditions set forth or referred to in the Loan Agreement, but only on the condition that the Guarantor guarantees the obligations of the Borrower under the Loan Agreement as provided in this Agreement; and

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

NOW, THEREFORE, the parties hereby agree as follows:

ARTICLE I - STANDARD TERMS AND CONDITIONS; DEFINITIONS

Section 1.01. Incorporation of Standard Terms and Conditions

All of the provisions of the Bank's Standard Terms and Conditions dated 1 May 2006 are hereby incorporated into and made applicable to this Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Definitions

Wherever used in this Agreement (including the Preamble), unless stated otherwise or the context otherwise requires, the terms defined in the Preamble have the respective meanings given to them therein, the terms defined in the Standard Terms and Conditions and the Loan Agreement have the respective meanings given to them therein and the following term has the following meaning:

"Guarantor's Authorised Representative" means the Minister of Finance.

"Roads Law"

means the law regulating the ownership and responsibilities for funding, administration, management and operation of the road network in the Republic of Serbia, passed by the National Assembly of the Republic of Serbia on November 14, 2005 and published in the Official Gazette No. 101/05 on November 21, 2005.

Section 1.03. Interpretation

In this Agreement, a reference to a specified Article or Section shall, except where stated otherwise in this Agreement, be construed as a reference to that specified Article or Section of this Agreement.

ARTICLE II - GUARANTEE; OTHER OBLIGATIONS

Section 2.01. Guarantee

The Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of any and all sums due under the Loan Agreement, whether at stated maturity, by acceleration or otherwise, and the punctual performance of all other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Project Completion

Whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of the Project, the Guarantor shall promptly take measures satisfactory to the Bank to provide the Borrower, or cause the Borrower to be provided, with such funds as are needed to meet such expenditures and requirements.

Section 2.03. Other Obligations

(a) The Guarantor shall not impose any direct or indirect taxes on foreign consultants employed by the Bank or the Borrower in the implementation of the Project and financed out of the proceeds of the Loan or any technical cooperation funds made available by the Bank.

(b) The Guarantor shall publish the tender or auction for the privatisation of all companies performing road maintenance at a national level.

(c) The Guarantor shall eliminate the differential between the tolls charged for international vehicles and tolls charged for domestic vehicles operated within the territory of the Republic of Serbia.

(d) The Guarantor shall take all actions necessary for ensuring that the Project is carried out in accordance with all the applicable environmental and social regulations and standards in effect from time to time in the jurisdiction in which the Project is located and with standards existing in the European Union on the date hereof (or, in the event that such standards do not exist in the European Union, as set forth in the applicable environmental guidelines of the World Bank Group, and the International Finance Corporation's Safeguard Policies on Indigenous Peoples, Involuntary Resettlement and Cultural Property as referred to in the Bank's Environmental Policy).

(e) The Guarantor shall take all actions necessary for the full implementation of the Roads Law including the approval of such regulations and by-laws as are necessary in connection therewith (including those submitted to it by the Borrower in accordance with Section 3.01(d)(1) of the Loan Agreement).

ARTICLE III - MISCELLANEOUS

Section 3.01. Notices

The following addresses are specified for purposes of Section 10.01 of the Standard Terms and Conditions:

For the Guarantor:

Ministry of Finance
Kneza Milosa 20 Street
Belgrade
Serbia

Attention: Mirjana Jovasevic

Fax: +381 11 3618 961

For the Bank:

European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom

Attention: Operation Administration Unit

Fax: +44-20-7338-6100

Telex: 8812161

Answerback: EBRD L G

Section 3.02. Legal Opinion

For purposes of Section 9.03(b) of the Standard Terms and Conditions and in accordance with Section 6.02 of the Loan Agreement, the opinion or opinions of counsel shall be given on behalf of the Guarantor by the Minister of Justice of the Republic of Serbia.

IN WITNESS WHEREOF the parties hereto, acting through their duly authorised representatives, have caused this Agreement to be signed in five copies and delivered at Belgrade, Serbia as of the day and year first above written.

REPUBLIC OF SERBIA

By: 

Name: Mirko Cvetkovic

Title: Minister of Finance

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

By: 

Name: Peter Reiniger

Title: Business Group Director

