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(Operation Number 37547)

**LOAN AGREEMENT
(BATUMI URBAN TRANSPORT)**

between

GEORGIA

and

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 2 September 2008

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LOAN AGREEMENT

AGREEMENT dated 2 September 2008 between **GEORGIA** (the "Borrower") and **EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT** (the "Bank").

PREAMBLE

WHEREAS, the Bank has been established to provide financing for specific projects to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics;

WHEREAS, the Borrower intends to implement the Project as described in Schedule 1;

WHEREAS, the Borrower will on-lend the proceeds of the Loan to the City of Batumi (the "City") pursuant to the City Loan Agreement (as hereinafter defined);

WHEREAS, the City will use the proceeds of the Loan to purchase up to 100 (one hundred) mid-size buses, spare parts therefor and any related maintenance equipment (the "Project Assets") and to contribute the same in the form of a capital contribution to the Project Entity pursuant to the Project Entity Contribution Agreement (as hereinafter defined);

WHEREAS, the Project will be carried out by Batumis Avtotransporti Ltd., a municipal enterprise and a wholly-owned subsidiary of the City of Batumi (the "Project Entity"), with technical assistance from the Bank (as described below) and financial assistance from the Borrower and the City;

WHEREAS, the Borrower has requested assistance from the Bank in financing part of the Project;

WHEREAS, the City has agreed, among other things, to provide funds in the aggregate amount of up to EUR 400,000 to the Project Entity to assist it in the refurbishing of the principal servicing and storage facilities required for the operation of the Project Assets by the Project Entity (the "Depot Renovation"), which shall be completed within two years from the date of signing of the Loan Agreement;

WHEREAS, the Bank has agreed to make available to the City and the Project Entity technical cooperation funds in the aggregate amount of EUR 492,000, as described in more detail in Schedule 1 hereto, on a grant basis to assist the City and the Project Entity in implementing the Project;

WHEREAS, the Bank has agreed on the basis of, *inter alia*, the foregoing to make a loan to the Borrower in the amount of EUR 2,500,000, subject to the terms and conditions set forth or referred to in (i) this Agreement, (ii) the project support agreement dated the date hereof between the City and the Bank (the "Project Support Agreement"), and (iii) the project agreement dated the date hereof between the Project

Entity and the Bank (the "Project Agreement", as defined in the Standard Terms and Conditions).

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 October 2007 are hereby incorporated into and made applicable to this Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications (such provisions, as so modified, are hereinafter called the "Standard Terms and Conditions"):

- (a) any reference to "Project Entity" in the Standard Terms and Conditions shall be deemed to be a reference to the City and/or the Project Entity, as applicable;
- (b) any reference to "Project Agreement" in the Standard Terms and Conditions shall be deemed to be a reference to the Project Support Agreement and/or the Project Agreement, as applicable; and
- (c) any reference to "Project Entity's Authorised Representative" in the Standard Terms and Conditions shall be deemed to be a reference to the City's Authorised Representative (as hereinafter defined) and/or the Project Entity's Authorised Representative (as hereinafter defined), as applicable.

Section 1.02. Definitions

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

"Borrower's Authorised Representative"

means the Ministry of Finance of Georgia; provided, however, that with respect to the submission of drawdown applications in accordance with Section 3.01(b) of the Standard Terms and Conditions, it means the City's Authorised Representative.

"City"

has the meaning ascribed to it in the Preamble to this Agreement.

"City Loan Agreement"	means the loan agreement, in form and substance satisfactory to the Bank, to be entered into between the Borrower and the City pursuant to Section 3.01(a), as amended from time to time.
"City's Authorised Representative"	means the Batumi City Hall.
"Depot Renovation"	has the meaning ascribed to it in the Preamble to this Agreement.
"Environmental Action Plan"	the environmental action plan for the Project dated 5 July 2007 and prepared by Environmental Resources Management Limited, as described in more detail in the Project Agreement.
"Project Assets"	has the meaning ascribed to it in the Preamble to this Agreement.
"Project Entity"	has the meaning ascribed to it in the Preamble to this Agreement.
"Project Entity's Authorised Representative"	means the Director of the Project Entity.
"Project Entity Contribution Agreement"	means the contribution agreement, in form and substance satisfactory to the Bank, to be entered into between the City and the Project Entity pursuant to Section 3.01(b), as amended from time to time.
"Project Support Agreement"	has the meaning ascribed to it in the Preamble to this Agreement.
"Service Contract"	means the service contract, in form and substance satisfactory to the Bank, regarding the provision of bus transportation services by the Project Entity, to be entered into between the City and the Project Entity pursuant to Section 3.01(h), as amended from time to time.
"Transaction Documents"	means this Agreement, the City Loan Agreement, the Project Entity Contribution Agreement, the Project Support Agreement, the Project Agreement, the Service Contract and any other document, in form and substance satisfactory to the Bank, to be entered into among the Bank, the Borrower, the City or the Project Entity in connection with the Project.

Section 1.03. Interpretation

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

ARTICLE II - PRINCIPAL TERMS OF THE LOAN

Section 2.01. Amount and Currency

(a) The Bank agrees to make a loan to the Borrower, on the terms and conditions set forth or referred to in this Agreement, in the aggregate amount of EUR 2,500,000 (two million five hundred thousand euros).

Section 2.02. Other Financial Terms of the Loan

- (a) The Minimum Drawdown Amount shall be EUR 200,000.
- (b) The Minimum Prepayment Amount shall be EUR 200,000.
- (c) The Interest Payment Dates shall be 20 June and 20 December of each year.
- (d) (1) The Borrower shall repay the Loan in twelve equal (or as nearly equal as possible) semi-annual instalments on each Interest Payment Date of each year, with the first Loan Repayment Date occurring on the first Interest Payment Date following the first anniversary of the execution of the Loan Agreement and the last Loan Repayment Date occurring on the Interest Payment Date immediately prior to the seventh anniversary of the execution of the Loan Agreement.

(2) Notwithstanding the foregoing, in the event that (i) the Borrower does not draw down the entire Loan amount prior to the first Loan Repayment Date specified in this Section 2.02.(d), and (ii) the Bank extends the Last Availability Date specified in Section 2.02.(e) below to a date which falls after such first Loan Repayment Date, then the amount of each drawdown made on or after the first Loan Repayment Date shall be allocated for repayment in equal amounts to the several Loan Repayment Dates which fall after the date of such drawdown (with the Bank adjusting the amounts so allocated as necessary so as to achieve whole numbers in each case). The Bank shall, from time to time, notify the Borrower of such allocations.
- (e) The Last Availability Date shall be the day falling on the first anniversary of the Loan Agreement, or such later date that the Bank may in its discretion establish and notify to the Borrower.
- (f) The rate of the Commitment Charge shall be 0.5% per annum.
- (g) The Loan is subject to a Variable Interest Rate.

Section 2.03. Drawdowns

The Available Amount may be drawn down from time to time in accordance with the provisions of Schedule 2 to finance (1) expenditures made (or, if the Bank so agrees, to be made) in respect of the reasonable cost of goods, works and services required for the Project, and (2) the Front-end Commission.

ARTICLE III - EXECUTION OF THE PROJECT

Section 3.01. Other Affirmative Project Covenants

In addition to the general undertakings set forth in Articles IV and V of the Standard Terms and Conditions, the Borrower shall, unless the Bank otherwise agrees:

- (a) Make available to the City all of the proceeds of the Loan on the same repayment terms as those provided for in this Agreement and on other terms and conditions acceptable to the Bank pursuant to the City Loan Agreement;
- (b) Cause the City to use the proceeds of the Loan to purchase the Project Assets and to contribute the same in the form of a capital contribution to the Project Entity pursuant to the Project Entity Contribution Agreement;
- (c) Exercise its rights under the City Loan Agreement in such manner as to protect the interests of the Borrower and the Bank, to comply with the provisions of this Agreement and any other Transaction Document to which it is a party and to accomplish the purposes for which the Loan is made;
- (d) Use best efforts to ensure that the City exercises its rights and performs its obligations under the Project Entity Contribution Agreement, the Service Contract and any other Transaction Document to which the City is a party in such manner as to protect, to the extent possible, the interests of the Bank, that The City complies with the provisions thereof and that the purposes for which the Loan is made are accomplished;
- (e) Not, and not cause the City to, except as the Bank otherwise agrees, assign, amend, abrogate or waive any provision of the City Loan Agreement, the Project Entity Contribution Agreement, the Service Contract or any other Transaction Document to which the Borrower or the City is a party, as applicable;
- (f) Use best efforts to ensure that the City performs all of its obligations under the Project Support Agreement, including, without limitation, its obligation to procure, through a budgetary allocation, funds in the aggregate amount of up to EUR 400,000 (and any other funds reasonably necessary to complete the Depot Renovation) to enable the Project Entity to complete the Depot Renovation within two years from the date of this Agreement;
- (g) Use best efforts to ensure that the City causes the Project Entity to perform all of its obligations under the Project Agreement, including, without limitation, its obligations relating to:

- (1) the appointment of a duly authorised officer of the Project Entity responsible for the Project's implementation as provided for in Section 2.02 of the Project Agreement;
 - (2) the procurement of goods, works and services for the Project as provided for in Section 2.03 of the Project Agreement;
 - (3) the environmental and social matters as provided for in Section 2.04 of the Project Agreement, including the Environmental Action Plan;
 - (4) the employment and use of consultants to assist in the implementation of the Project as provided for in Section 2.05 of the Project Agreement;
 - (5) the preparation and submission of reports on matters relating to the Project and to the Project Entity's operations as provided for in Section 2.07 of the Project Agreement;
 - (6) the maintenance of procedures, records and accounts, preparation, auditing and submission to the Bank of financial statements and furnishing to the Bank any other relevant information relating to the Project or the Project Entity's operations as provided for in Section 3.01 of the Project Agreement; and
 - (7) compliance with all covenants regarding financial and operational aspects of the Project and the Project Entity as provided for in Sections 3.02, 3.03 and 3.04 of the Project Agreement;
- (h) Use best efforts to ensure that the City enters into the Service Contract with the Project Entity within 15 (fifteen) months after the date of the Loan Agreement, as provided for in Section 2.06. of the Project Agreement;
- (i) Take, or cause to be taken, all such additional action (including, without limitation, providing adequate funds or other assistance to the Project Entity to complete the Project) and execute, or cause to be executed, all such additional documents as the Bank and the Borrower may reasonably determine to be necessary or desirable to effect the provisions of this Agreement or any other Transaction Document and the transactions contemplated hereunder and thereunder; and
- (j) Cause the City to perform all of its obligations under the Project Support Agreement, including, without limitation, its obligations relating to the procurement of goods, works and services for the Project as provided in Section 2.04 of the Project Support Agreement.

ARTICLE IV - SUSPENSION; ACCELERATION

Section 4.01. Suspension

The following are specified for purposes of Section 7.01(a)(xvii) of the Standard Terms and Conditions:

(a) Each of the Statutes of the City or the Project Entity or any Transaction Document shall have been amended, suspended, abrogated, repealed or waived in a manner which, in the reasonable opinion of the Bank, may cause a material adverse effect on the Project or the Project Entity;

(b) The City shall have not maintained more than 50% of the legal and beneficial ownership of the Project Entity; or

(c) The City or the Project Entity shall have failed to perform any of its obligations under the Project Support Agreement or the Project Agreement, respectively, or under any other Transaction Document to which the City or the Project Entity is a party, as applicable.

Section 4.02. Acceleration of Maturity

The events referred to in Section 4.01 are specified as additional Events of Acceleration for purposes of Section 7.06(f) of the Standard Terms and Conditions.

ARTICLE V - EFFECTIVENESS

Section 5.01. Conditions Precedent to Effectiveness

The following are specified for purposes of Section 9.02(c) of the Standard Terms and Conditions as additional conditions to the effectiveness of this Agreement (including, without limitation, the right of the Borrower to request Drawdowns hereunder):

(a) each Transaction Document (other than the Service Contract and the Project Entity Contribution Agreement) has been duly executed and delivered by the parties thereto, and all conditions precedent to its effectiveness (except only the effectiveness of this Agreement) have been satisfied;

(b) the Borrower has taken all necessary action, including, without limitation, the ratification or approval, as applicable, of this Agreement or any other Transaction Document to which it is a party to secure the effectiveness hereof or thereof;

(c) the Bank has received certified copies (with English translation) of the current Statutes of the City and the Project Entity; and

(d) any other action has been taken and any other agreement has entered into, as may be reasonably requested by the Bank, by the Borrower, the City or the Project Entity, in relation to this Agreement or any other Transaction Document.

Section 5.02. Legal Opinions

(a) For purposes of Section 9.03(a) of the Standard Terms and Conditions, the favourable legal opinion shall be given on behalf of the Borrower by the Ministry of

Justice of the Borrower and shall state, in addition to what is specified in the Standard Terms and Conditions, that the City Loan Agreement has been duly authorised by, and delivered on behalf of, the Borrower and constitutes a valid and legally binding obligation of the Borrower, enforceable in accordance with its terms.

(b) For purposes of Section 9.03(c) of the Standard Terms and Conditions, the favourable legal opinion shall be given on behalf of the City and the Project Entity by the Head of the Legal Service of the City and shall state, in addition to what is specified in the Standard Terms and Conditions, that each Transaction Document (other than the Service Contract and the Project Entity Contribution Agreement) to which the City or the Project Entity, as applicable, is a party, has been duly authorised or ratified by, and executed and delivered on behalf of, the City or the Project Entity, as applicable, and constitutes a valid and legally binding obligation of the City or the Project Entity, as applicable, enforceable in accordance with its terms.

Section 5.03. Termination for Failure to Become Effective

The date which occurs 180 days after the date of this Agreement is specified for purposes of Section 9.04 of the Standard Terms and Conditions.

ARTICLE VI - MISCELLANEOUS

Section 6.01. Notices

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

For the Borrower:

Georgia
Ministry of Finance of Georgia
16 Gorgasali Street
Tbilisi, 1014, Georgia

Attention: Department of External Relations

Telephone: +995 32 446 461

Fax: +995 32 457 443

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

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 Tbilisi, Georgia as of the day and year first above written.

GEORGIA

By: _____

Name: Nika Gilauri
Title: Minister of Finance



**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

By: _____

Name: Catarina Bjorlin Hansen
Title: Associate Banker



SCHEDULE 1 - DESCRIPTION OF THE PROJECT

1. The purpose of the Project is to assist the Borrower in implementing a public transport (bus) project in the City of Batumi.
2. The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time:

Uses of Funds	EUR million	Financing	Comment
Investment:			
Purchase of mid-size buses, including basic spare parts	2.2	EBRD	
Purchase of maintenance equipment	0.3	EBRD	
Depot Renovation	up to 0.4	City	
Taxes (including VAT)	0.45	City	
Total investment	3.35		
Technical Co-operation (on a grant basis):			
Business Plan	0.035	Grant, Canada	Finalized
Procurement Support	0.030	EBRD MEI budget	In process
Audit	0.024	Grant, Canada	Finalized
Credit Analysis of the City	0.043	Grant, Canada	Finalized
Environmental Audit	0.010	EBRD MEI budget	Finalized
Winning Partnership (assistance with the corporate development of the Project Entity)	0.20	ETC Fund	Procurement under way, to commence on loan signing.
Transport Restructuring (regulatory framework support to the Project Entity)	0.10	ETC Fund	Procurement under way, to commence on loan signing.
Implementation support to the Project Entity in relation to the Environmental Action Plan	0.05	Grant, Canada	Contracted, to commence on loan signing.
Total Technical Co-operation	0.492		Grant

3. The Project is expected to be completed (a) with respect to the purchase of the Project Assets, by 30 June 2009, (b) with respect to the Depot Renovation, within two years after the signing of the Loan Agreement, and (c) with respect to the technical co-operation, by 30 November 2009, as described in more detail below:

Action	To be completed
Purchase of mid-size buses, including basic spare parts	By 30 June 2009
Purchase of maintenance equipment	By 30 June 2009
Depot rehabilitation	Within 2 years of signing the Loan Agreement
Twinning Partnership (assistance with the corporate development of the Project Entity)	Within 1 year of signing the Loan Agreement
Transport Restructuring (regulatory framework support to the Project Entity)	Within 15 months of signing the Loan Agreement
Implementation support to the Project Entity in relation to the Environmental Action Plan	Within 6 months of signing the Loan Agreement

SCHEDULE 2 - CATEGORIES AND DRAWDOWNS

1. The table attached to this Schedule sets forth the Categories, the amount of the Loan allocated to each Category and the percentage of expenditures to be financed in each Category.

2. Notwithstanding the provisions of paragraph 1 above, no Drawdown shall be made in respect of any expenditures incurred prior to the date of the Loan Agreement.

Category	Amount of the Loan Allocated in the Loan Currency	Percentage of Expenditures (net of Taxes) to be Financed
(1) Goods, Works and Services	2,475,000 EUR	100% of contract value of contracts subject to international tender
(2) Front-end Commission	25,000 EUR	100%
Total	2,500,000 EUR	