

**FINANCIAL CO-OPERATION PROGRAMME
BETWEEN THE REPUBLIC OF SERBIA AND
THE GOVERNMENT OF SPAIN**

The Republic of Serbia represented by Ms. Jela Bacovic, Ambassador of the Republic of Serbia in Spain, and the Government of Spain, represented by Ms. Silvia Iranzo, Secretary of State for Trade of the Ministry of Industry, Tourism and Trade of Spain, hereinafter referred as the "Contracting Parties", have decided in order to enhance economic and trade relations between the two countries to sign this Financial Cooperation Programme. This Programme will be implemented in a period of two years following its coming into force.

The main lines of the Programme are as follows:

Article 1

The Spanish side expresses its willingness to make available funds amounting to EUR 46 million to Serbia in accordance with the following provisions:

- a) EUR 1 million in the form of grants for the financing of feasibility studies of projects and programs agreed between the Contracting Parties. These funds will be secured from the Spanish Fund "Fondo de Estudios de Viabilidad" (FEV).
- b) EUR 45 million in the form of credits to finance procurement of brand new Spanish goods and services from the Spanish companies that have signed contracts for the implementation of projects in Serbia.

Article 2

The credit amount mentioned in Article 1 b) will be a concessionary loan, and will be provided by the Spanish Development Aid Fund ("Fondo de Ayuda al Desarrollo" – FAD).

Each credit will be backed by a letter of acceptance of the credit by the Ministry of Finance of the Republic of Serbia. In this letter the Ministry of Finance shall identify the Institution that will empowered to act on behalf of the Republic of Serbia, or, the institution that will act with the sovereign guarantee of the Republic of Serbia.

These funds will be provided in accordance with the existing international rules and regulations, and particularly the OECD Consensus, as well as the institutional commitments of both Contracting Parties.

Prior to the enforcement of the Loan Agreements for the projects to be financed from the funds under this Programme, final approval by the Spanish Council of Ministers shall be required.

Article 3

The funds mentioned in Article 1 b) will be used to finance the cost expressed in EUR and will include a concessionary component amounting to 35 percent.

These funds will be used to finance, within each contract, the following:

- 100% of brand new goods and services of Spanish origin;
- Local costs¹, up to 15 percent of the total value of exported goods and services, on a case by case basis;
- Goods and services of third countries, up to 15 percent of the total value of exports of goods and services, also on a case by case basis.

The contracts between Spanish suppliers and the authorised legal entities from Serbia will be expressed in EUR.

Article 4

The customs duties and charges, if any, set by the competent authorities of the Republic of Serbia on the imports of goods and services within the framework of this programme will not be financed through the funds established under this Programme.

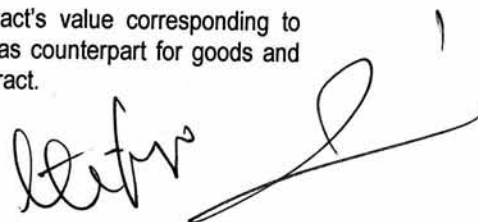
Article 5

The Contracting Parties have agreed to use the funds mentioned in Article 1b) of this programme for dynamization of the economic development of Serbia, preferably within the following fields:

- The water management sector,
- The environment,
- Energy,
- The chemical sector,
- Infrastructure,
- Telecommunications,
- Transport.

In allocating projects to the above mentioned sectors account should be taken of the recommendation. No more than two projects per sector shall be proposed.

¹ Local costs: it is understood as local costs those part of the commercial contract's value corresponding to disbursements to be done in Serbia, under the direct responsibility of the exporter, as counterpart for goods and services supplied by that country, that are necessary for the implementation of the contract.



Financial facilities could be applied to any project or contract not included in the above mentioned sectors, and considered of mutual interest. Both Contracting Parties should approve the financing of such projects and contracts out the proceeds of the credit.

Article 6

The Contracting Parties are agreed to use the funds mentioned in Article 1 of this Programme to finance projects or contracts to be awarded to Spanish companies.

The Contracting Parties will be in continued and direct contact during the implementation of this Programme and will inform each other of any issue or proposal related thereto.

The Serbian side will allow the staff or the representatives of the Spanish side to visit, at their own cost, any place or site at which projects financed from the funds under this Programme are being carried out and will provide them with all necessary information concerning the project, the progress made in its implementation and its financing.

Article 7

The contracts on projects whose implementation will be financed from the funds under this Programme will be awarded as a result of competition based on a call for tenders limited to Spanish companies after the terms of the tender have been made public in Serbia and in Spain.

In exceptional circumstances, Contracting Parties may agree on any other award procedure.

Article 8

In case the above mentioned funds are not used up to the full by the mentioned expiry date, the Contracting Parties may, by mutual agreement, extend the validity period of the present Programme, accepting also a possible change in its financial terms, in accordance with international laws and agreements, and particularly the OECD Consensus.

Article 9

Financial agreements related to concessional credits will be implemented in accordance with internal laws of both countries. Such agreements will be negotiated and signed by the Spanish Instituto de Crédito Oficial (ICO), acting under the authority given by the Government of Spain, and by the Ministry of finance acting under the authority given by the Government of Serbia or by the Institution designated by the Ministry of Finance of the

Republic of Serbia, provided that it relies on the guarantee of the Republic of Serbia, issued by the competent authorities according to the Serbian legislation.

Article 10

The present Programme will come into force upon the completion of the ratification procedure by the Parliament of Serbia.

Done in two original texts in English language, both being equally authentic.

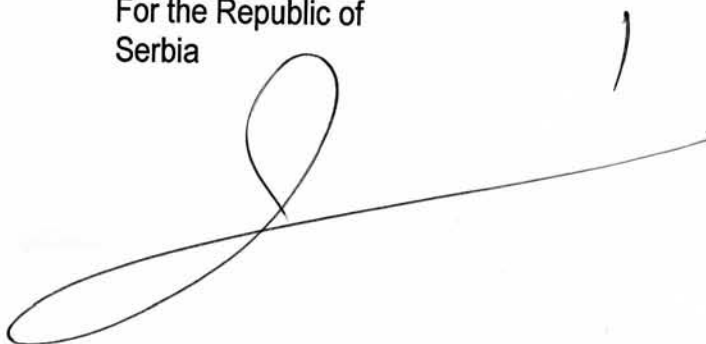
Signed in Madrid on July 17th 2008

For the Ministry of
Industry, Tourism
and Trade of Spain



Ms. Silvia Iranzo
Secretary of State for Trade

For the Republic of
Serbia



Ms. Jela Bacovic
Ambassador of the Republic of Serbia
in Spain

ANNEX

PROJECT CYCLE PROCEDURES SPANISH-SERBIAN FINANCIAL COOPERATION PROGRAMME

STEP 1: Project identification. Prioritization

Projects must be prioritized by mutual agreement before the end of 2008, together with the signature of this Financial Cooperation Programme.

The Serbian and the Spanish authorities, however, may at any time identify new projects and propose their financing to the other party.

For every prioritized project, the Serbian executing agency, through the Ministry of Finance, will present to the Spanish Ministry of Industry, Tourism and Trade a project outline, which will always include a budget estimate and expected supplies. When the Serbian side will deem it necessary, they will address at this point the request for a feasibility study.

The Spanish Economic and Commercial Office in Belgrade shall be the usual means of communication between both sides.

STEP 2: Technical assistance

Taking into account the aims and rules of the Spanish official export financing system, the Spanish side will decide whether to accept preliminarily or not the project. If the project is preliminarily accepted and a feasibility study is convenient, the Spanish Ministry of Industry, Tourism and Trade will entrust the study to Sociedad Estatal Española P4R, S.A, a public company specialized in project assessment.

The final decision on accepting or rejecting the project shall be taken on the basis of the feasibility study.

If the project is accepted, the Spanish side will notify the financial proposal to the OECD.

STEP 3: Bidding documents

The Spanish Ministry of Industry, Tourism and Trade can entrust Sociedad Estatal Española P4R, S.A, with providing technical assistance to the Serbian side for preparing the bidding documents, which shall be respectful of both the Serbian and the Spanish laws.

STEP 4: Bidding Process

Projects financed by Spanish concessional credits are tied to the procurement of brand new Spanish goods and services. The bidding process of such projects should therefore be opened to all legitimate and eligible Spanish companies.

A copy of the information to be published in Serbia shall be sent to the Spanish Economic and Commercial Office in Belgrade at least 30 days prior to the first date of publication in the local newspaper.

Publication in Spain will take place at about the same time as the Serbian publication. The Spanish authorities will disseminate the information in Spain using the magazine of the Ministry of Industry, Tourism and Trade (BICE) the electronic communication services of ICEX and www.comercio.es

The bidders will have to acquire the Bidding Documents either in Spain or in Serbia. In Spain the acquisition shall be free of charge. Each party shall communicate the other one which companies have acquired the Bidding Documents.

The documents shall be available for acquisition during a period of at least 25 days, and at least 45 days will be given from the end of the period of issuance of bid/tender documents until the deadline of their submission.

The Spanish Economic and Commercial Counsellor in Belgrade will be kept duly informed of any relevant issues that may arise during the selection process.

One representative from the Spanish Economic and Commercial Office in Belgrade shall attend the opening of bids session of each tender.

The Serbian party will decide on the awarding of the tender, whose outcome will be notified to the Spanish Ministry of Industry, Tourism and Trade, that will guarantee and communicate its accordance to the general legal principles.

STEP 5: Signing of the Commercial Contract and Loan Agreement

The Serbian executing agency and the Spanish company awarded with the project will negotiate and sign the commercial contract.

The concessional credit will be submitted to the Spanish Council of Ministers for final approval. Following the approval, ICO will be designated as financial agent of the Kingdom of Spain for that credit, and will sign the Loan Agreement with the Republic of Serbia or other authorised legal entities. This Loan Agreement will govern the legal relationship between both parties, including contractual terms such as the financial conditions, entry into force, and commissions among others.

STEP 6: Evaluations

The Spanish Ministry of Industry, Tourism and Trade will entrust Sociedad Estatal Española P4R, S.A, with the supervision of project implementation. Progress reports will be shared with the Serbian authorities.

The Spanish Ministry of Industry, Tourism and Trade has the right to entrust to an independent body an ex post evaluation of the implemented project, in order to check the extent to which the operations have reached their goals and targets.

The Ministry of Finance and the Spanish Ministry of Industry, Tourism and Trade will conclude over project quality.