

CONFORMED COPY

LOAN NUMBER 3723 RO

LOAN AGREEMENT

(Petroleum Sector Rehabilitation Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 1, 1994

LOAN NUMBER 3723 RO

LOAN AGREEMENT

AGREEMENT, dated June 1, 1994, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to contract from the European Investment Bank a Loan (the EIB Loan) in an aggregate amount equivalent to about \$52,000,000 to assist in financing of Part C of the Project on the terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between the Borrower and EIB;

(C) Part B of the Project will be carried out by PETROM R.A. (PETROM), Part C of the Project will be carried out by ROMGAZ R.A. (ROMGAZ) and Part D of the Project will be carried out by CONPET S.A. (CONPET), all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PETROM, ROMGAZ and CONPET the proceeds of the Loan as provided in this Agreement and to ROMGAZ the proceeds of the EIB Loan as provided in the EIB Loan Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement, in the PETROM Project Agreement between the Bank and PETROM, in the ROMGAZ Project Agreement between the Bank and ROMGAZ and in the CONPET Project Agreement between the Bank and CONPET, all of even date herewith;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "PETROM Project Agreement" means the agreement between the Bank and PETROM R.A. (PETROM) of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the PETROM Project Agreement;

(b) "ROMGAZ Project Agreement" means the agreement between the Bank and ROMGAZ R.A. (ROMGAZ) of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the ROMGAZ Project Agreement;

(c) "CONPET Project Agreement" means the agreement between the Bank and CONPET S.A. (CONPET) of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the CONPET Project Agreement;

(d) "Project Agreements" means the PETROM Project Agreement, the ROMGAZ Project Agreement and the CONPET Project Agreement;

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

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

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

(h) "the Subsidiary Loan Agreements" means the PETROM Subsidiary Loan Agreement, the ROMGAZ Subsidiary Loan Agreement and the CONPET Subsidiary Loan Agreement;

(i) "PETROM Charter", "ROMGAZ Charter" and "CONPET Charter" mean, respectively, Government Decision No. 23 of January 10, 1991, pertaining to the establishment and operations of PETROM, Government Decision No. 16 of

January 10, 1991, pertaining to the establishment and operations of ROMGAZ and Government Decision No. 1213 of November 20, 1990, pertaining to the establishment and operations of CONPET;

(j) "Petroleum Sector Strategy" means the Borrower's strategy for the restructuring and further development of its petroleum sector in line with its policy for the establishment of a market-based economy and for the promotion of private sector investments in said sector, whose outline is set forth in Schedule 8 to this Agreement;

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

(l) "MIND" means the Borrower's Ministry of Industries, or any successor thereof; and

(m) "NAMR" means the independent national agency for mineral resources to be established by the Borrower under Part A (1) of the Project.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred seventy five million six hundred thousand dollars (\$175,600,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project open and maintain in dollars a special deposit account in a bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1999, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as

reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause PETROM, ROMGAZ and CONPET to perform in accordance with the provisions of the PETROM Project Agreement, the ROMGAZ Project Agreement and the CONPET Project Agreement, respectively, all the obligations of PETROM, ROMGAZ and CONPET therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PETROM, ROMGAZ and CONPET to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) (i) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend the proceeds of the Loan to PETROM, ROMGAZ and CONPET under subsidiary loan agreements to be entered into between the Borrower and each of PETROM, ROMGAZ and CONPET, respectively, under terms and conditions which shall have been approved by the Bank which shall include the principal terms set forth in Schedule 7 to this Agreement.

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the consultants' services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of: (a) Part B of the Project shall be carried out by PETROM pursuant to Section 2.03 of the PETROM Project Agreement; (b) Part C of the Project shall be carried out by ROMGAZ pursuant to Section 2.03 of the ROMGAZ Project Agreement; and (c) Part D of the Project shall be carried out by CONPET pursuant to Section 2.03 of the CONPET Project Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A of the Project of the departments or agencies of the Borrower responsible for carrying out Part A of the Project or any subpart thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records;

and

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

Section 4.02. In accordance with its policy to rationalize domestic energy prices, the Borrower shall continue to maintain the producer prices, as calculated and established in accordance with criteria and guidelines satisfactory to the Bank, of locally produced: (a) crude oil at levels equivalent to the average FOB price level of similar quality crude oil; and (b) natural gas at levels equivalent at least to the average FOB price level of thermally equivalent imported fuel oil.

Section 4.03. The Borrower shall:

- (a) carry out its Petroleum Sector Strategy with due diligence and efficiency and at all times take all necessary action to achieve the objectives thereof;
- (b) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators satisfactory to the Bank, the carrying out of said Strategy and the achievement of the objectives thereof;
- (c) prepare and furnish to the Bank for review and comments, by October 1 of each year, a report, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the said Strategy and the measures recommended to sustain and further such progress based on the results of the monitoring and evaluation activities performed pursuant to paragraph (b) of this Section; and
- (d) by December 1 of each year, update the said Strategy and thereafter implement the measures required to ensure the achievement of the objectives thereof, taking into consideration the conclusions and recommendations of the reports prepared pursuant to paragraph (c) of this Section and the Bank's comments thereon.

Section 4.04. The Borrower shall take all necessary action on its part to ensure that its departments, agencies and all entities owned or controlled by it will settle their bills on account of oil and gas purchases from PETROM and ROMGAZ, respectively, within a period of not more than three months of the date of such bills.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) PETROM, ROMGAZ or CONPET shall have failed to perform any of its obligations under the PETROM Project Agreement, ROMGAZ Project Agreement or CONPET Project Agreement, respectively.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that PETROM, ROMGAZ or CONPET will be able to perform its obligations under the PETROM Project Agreement, ROMGAZ Project Agreement or CONPET Project Agreement, respectively.
- (c) The PETROM Charter, the ROMGAZ Charter or the CONPET Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PETROM, ROMGAZ or CONPET to perform any of its obligations under the PETROM Project Agreement, the ROMGAZ Project Agreement or the CONPET Project Agreement, respectively.
- (d) The Borrower or any other authority having jurisdiction shall have

taken any action for the dissolution or disestablishment of PETROM, ROMGAZ or CONPET or for the suspension of its respective operations.

(e) The EIB Loan Agreement shall have failed to become effective by December 31, 1994, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower or ROMGAZ establishes to the satisfaction of the Bank that adequate funds for Part C of the Project are available to ROMGAZ from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement and of ROMGAZ under the ROMGAZ Project Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower;

(b) any event specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso in paragraph (f) (ii) of Section 5.01 of this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreements have been executed on behalf of the parties thereto; and

(b) the agency referred to in paragraph 2 of Schedule 5 to this Agreement has been duly established and staffed in accordance with the provisions of said paragraph 2.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the PETROM Project Agreement, the ROMGAZ Project Agreement and the CONPET Project Agreement have been duly authorized or ratified by PETROM, ROMGAZ and CONPET, respectively, and are legally binding upon PETROM, ROMGAZ and CONPET in accordance with their respective terms; and

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by, and are legally binding upon, the parties thereto in accordance

with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
17, Apolodor Street
Bucharest
Romania

Telex:

11239

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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

ROMANIA

By /s/ Vasile Puscas
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Michael H. Wiehen
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

| Category | Amount of the Loan Allocated (Expressed in Dollar Equivalent) | % of Expenditures to be Financed |
|--|--|---|
| (1) Consultants' services and training for Part A of the Project | 7,200,000 | 100% |
| (2) Part B of the Project: | | |
| (a) Goods | 25,000,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally |
| (b) Consultants' services and training | 5,000,000 | 100% |
| (c) Unallocated | 5,000,000 | |
| (3) Part C of the Project: | | |
| (a) subpart (2)(b) thereof | | |
| (i) Goods | 800,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally |
| (ii) Consultants' services | 200,000 | 100% |
| (b) other subparts thereof | | |
| (i) Goods | 53,000,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally |

| | | | |
|----------------------------|--|-------------|---|
| | (ii) Consultants' services | 12,300,000 | 100% |
| | (c) Unallocated | 4,000,000 | |
| (4) Part D of the Project: | | | |
| | (a) Goods | 50,000,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally |
| | (b) Consultants' services and training | 10,000,000 | 100% |
| | (c) Unallocated | 3,100,000 | |
| | TOTAL | 175,600,000 | ===== |

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$17,500,000, may be made on account of payments made for expenditures before that date but after April 30, 1993.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (1) assist the Borrower in achieving the objectives of its Petroleum Sector Strategy to promote private sector investments in the petroleum sector and to strengthen institutional capabilities and establish a suitable regulatory framework to facilitate the development of an efficient and commercially oriented petroleum sector; and (2) assist each of PETROM, ROMGAZ and CONPET in improving its operational efficiency and financial management.

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

Part A: MIND and NAMR

(1) Carrying out of a program to strengthen the policy making functions of MIND, including: (a) the development and implementation of (i) a fuel policy, (ii) a strategy for the restructuring and optimizing the refinery subsector operations, and (iii) a regulatory framework for the petroleum sector and a strategy for upgrading the operations of the oil services subsector; and (b) the establishment and operation of an independent national agency for mineral resources to function as the Borrower's regulatory authority for the petroleum sector.

(2) Carrying out, through NAMR, of (a) a study to develop a pricing policy for oil and gas transmission and distribution, and (b) a petroleum

exploration promotion program to facilitate the participation by international oil companies in oil and gas exploration and development and production investments, including the preparation of model exploration and production contracts for such participation.

Part B: PETROM

(1) Development and implementation of a corporate restructuring and development program with the objective of improving PETROM organization, streamlining its operations and improving its financial condition and management.

(2) Carrying out of: (a) a program to upgrade existing production facilities, introduce modern production technology and workover of wells to improve their productivity; and (b) a program to implement enhanced oil recovery techniques for the production of oil and gas on selected fields through cooperative arrangements between PETROM and international oil companies.

(3) Carrying out of an environmental action plan for upgrading the waste water treatment plant at Suplacu and the environmental laboratory at Cimpina.

(4) Provision of technical assistance, staff training, equipment and spare parts, chemicals and materials to be utilized in the carrying out of this part of the Project.

Part C: ROMGAZ

(1) Development and implementation of a corporate restructuring and development program with the objective of improving ROMGAZ organization, streamlining its operations and improving its financial condition and management.

(2) Carrying out of: (a) a program to upgrade existing production facilities and introduce modern production technology; and (b) a program to implement enhanced recovery techniques in selected gas reservoirs through joint ventures between ROMGAZ and international oil companies.

(3) Carrying out of a program for the rehabilitation of the gas distribution system through the replacement of about 1,000 km of severely corroded pipelines.

(4) Installation of a supervisory control and data acquisition system (SCADA) and telecommunications system to be utilized in monitoring, analyzing and determining the optimized operational mode of gas flow in the gas transmission system.

(5) Carrying out of an environmental action plan to introduce environmental abatement measures in gas production fields and in the transmission and distribution systems.

(6) Provision of technical assistance, staff training, equipment and spare parts and materials to be utilized in the carrying out of this Part of the Project.

Part D: CONPET

(1) Development and implementation of a corporate development program with the objective of improving CONPET organization and streamlining its operations as a common carrier of crude oil.

(2) Carrying out of programs to rehabilitate, modernize and automate the crude oil transmission systems, including the replacement of about 300 km of corroded pipelines and the installation of a SCADA system and of a telecommunications system.

(3) Carrying out of an environmental action plan to introduce environment abatement measures in the management of sludge in the oil transportation systems.

(4) Provision of technical assistance, staff training, equipment and

spare parts and materials to be utilized in the carrying out of this Part of the Project.

* * *

The Project is expected to be completed by July 31, 1999.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|------------------|---|
| November 1, 1999 | 3,285,000 |
| May 1, 2000 | 3,405,000 |
| November 1, 2000 | 3,530,000 |
| May 1, 2001 | 3,665,000 |
| November 1, 2001 | 3,800,000 |
| May 1, 2002 | 3,940,000 |
| November 1, 2002 | 4,085,000 |
| May 1, 2003 | 4,240,000 |
| November 1, 2003 | 4,395,000 |
| May 1, 2004 | 4,560,000 |
| November 1, 2004 | 4,730,000 |
| May 1, 2005 | 4,905,000 |
| November 1, 2005 | 5,085,000 |
| May 1, 2006 | 5,275,000 |
| November 1, 2006 | 5,470,000 |
| May 1, 2007 | 5,675,000 |
| November 1, 2007 | 5,885,000 |
| May 1, 2008 | 6,105,000 |
| November 1, 2008 | 6,330,000 |
| May 1, 2009 | 6,565,000 |
| November 1, 2009 | 6,810,000 |
| May 1, 2010 | 7,060,000 |
| November 1, 2010 | 7,325,000 |
| May 1, 2011 | 7,595,000 |
| November 1, 2011 | 7,880,000 |
| May 1, 2012 | 8,170,000 |
| November 1, 2012 | 8,475,000 |
| May 1, 2013 | 8,790,000 |
| November 1, 2013 | 9,115,000 |
| May 1, 2014 | 9,450,000 |

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

| Time of Prepayment | Premium |
|---|--|
| | The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by: |
| Not more than three years before maturity | 0.15 |
| More than three years but not more than six years before maturity | 0.30 |

| | |
|--|------|
| More than six years but not more than 11 years before maturity | 0.55 |
| More than 11 years but not more than 16 years before maturity | 0.80 |
| More than 16 years but not more than 18 years before maturity | 0.90 |
| More than 18 years before maturity | 1.00 |

SCHEDULE 4

Consultants' Services

1. Consultants' services shall be procured under contracts awarded to consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall carry out Part A of the Project through MIND and NAMR and shall employ consultants with qualifications and terms of reference, and in accordance with a time-schedule, satisfactory to the Bank, in order to assist in the carrying out of said Part A.

2. The Borrower shall establish and maintain, with staff and other resources and terms of reference satisfactory to the Bank, NAMR to be responsible for regulating the activities of the entities involved in the production and distribution of mineral resources.

3. The Borrower shall, with the assistance of the consultants referred to in paragraph 1 hereof and under terms of reference satisfactory to the Bank:

(a) (i) by December 31, 1994, initiate, through NAMR, the preparation for the carrying out of the petroleum exploration promotion program referred to in Part A (2) of the Project; and (ii) by March 31, 1995, initiate the carrying out of said program;

(b) by November 1, 1994, demarcate, through NAMR, the areas relinquished by PETROM, pursuant to the provisions of paragraph 3 of Schedule 2 to the PETROM Project Agreement, and by ROMGAZ, pursuant to the provisions of paragraph 4 of Schedule 2 to the ROMGAZ Project Agreement, and offer such areas for exploration and production to private sector companies on a competitive basis;

(c) (i) by November 1, 1994, initiate, through MIND, the carrying out of a study for the development of the fuel policy referred to in Part A (1)

(a) (i) of the Project, (ii) by December 31, 1995, ensure that said study is completed and a copy thereof furnished to the Bank for its review and comments, and (iii) thereafter, take all measures required to implement a fuel policy based on the recommendations of said study and the Bank's comments thereon;

(d) (i) by November 1, 1994, initiate, through NAMR, the carrying out of a study for the development of the pricing policy for oil and gas transmission and distribution referred to in Part A (2) (a) of the Project, (ii) by July 31, 1995, ensure that the said study is completed and a copy thereof furnished to the Bank for its review and comments, and (iii) thereafter take all measures required to implement a pricing policy for oil and gas transmission and distribution based on the recommendations of said study and the Bank's comments thereon;

(e) (i) by November 1, 1994, initiate, through MIND, the carrying out of a study for the development of a restructuring and optimizing strategy for the refinery subsector referred to in Part A (1) (a) (ii) of the Project, (ii) by December 31, 1995, ensure that the said study is completed and a copy thereof furnished to the Bank for its review and comments, and (iii) thereafter, take all measures required to implement a strategy for the restructuring and optimizing the refinery subsector operations based on the recommendations of the said study and the Bank's comments thereon; and

(f) (i) by November 1, 1994, ensure, through MIND, that the draft regulatory framework for the petroleum sector, referred to in Part A (1) (a) (iii), and, through NAMR, that the draft model exploration and production contract referred to in Part A (2), of the Project, are completed and copies thereof furnished to the Bank for its review and comments, and (ii) by December 31, 1994, finalize and adopt the same after taking into consideration the Bank's views thereon.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence

required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Principal Terms of the Subsidiary Loan Agreements

1. The principal amounts to be made available by the Borrower pursuant to the PETROM, ROMGAZ and CONPET Subsidiary Loan Agreements shall be,

respectively, the equivalent in dollars (determined as of the respective date or dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services financed out of the proceeds of the Loan allocated from time to time to: (a) Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, in respect of the principal amount to be made available pursuant to the PETROM Subsidiary Loan Agreement; (b) Category (3) of said table, in respect of the principal amount to be made available pursuant to the ROMGAZ Subsidiary Loan Agreement; and (c) Category (4) of the said table, in respect of the principal amount to be made available pursuant to the CONPET Subsidiary Loan Agreement.

2. Each of the principal amounts referred to in paragraph 1 of this Schedule: (a) not withdrawn from time to time, shall be charged a commitment charge at a rate per annum equal to the rate of commitment charge applicable to the Loan pursuant to Section 2.04 of this Agreement; (b) withdrawn and outstanding from time to time, shall be charged interest at a rate per annum equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, plus a margin equivalent to one tenth of such rate; and (c) shall be made for a period of 20 years, inclusive of a grace period of five years.

SCHEDULE 8

Outline of the Petroleum Sector Strategy

The basic elements of the Petroleum Sector Strategy comprise:

1. institutional reforms of the oil and gas sector aimed at enhancing the effectiveness of oil and gas exploration and production, especially by facilitating the entry of foreign investors;
2. development of a petroleum law and establishment of a national regulatory agency for mineral resources (NAMR) independent of the oil and gas entities operating in the sector; with said agency to be responsible for granting concessions, regulating corporate activities in the sector and enforcing pricing policies;
3. restructuring of the main entities operating in the sector as a means of ensuring efficient management, corporate planning and commercial orientation;
4. development of a national social safety net program to cater for surplus staff that may occur as a result of the corporate restructuring of the entities operating in the sector;
5. rehabilitation and modernization of the oil and gas transmission and distribution pipeline networks as a means of enhancing the capability and efficiency of the systems;
6. instituting, by the entities operating in the sector, of acceptable accounting principles to ensure financial accountability through the setting up of financial criteria to which said entities will be held accountable;
7. development of a fuel policy for the rationalization of supply and demand of energy resources including modification of producer and consumer pricing policies of energy resources as a means of resource mobilization for the development of the sector;
8. development of a comprehensive program for addressing environmental issues; and
9. undertaking a program for the promotion of oil and gas exploration and of enhanced oil recovery, and establish model production sharing agreements and contracts with foreign oil companies, either alone or in joint ventures with the entities operating in the sector.

