

CONFORMED

LOAN NUMBER 3872 RU

Project Agreement
(Emergency Oil Spill Recovery and Mitigation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

OTJSC KOMINEFT

Dated April 25, 1995

LOAN NUMBER 3872 RU

PROJECT AGREEMENT

AGREEMENT, dated April 25, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and OTJSC KOMINEFT (Komineft).

WHEREAS (A) by the Loan Agreement of even date herewith between Russian Federation (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to ninety nine million dollars (\$99,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Komineft agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and Komineft the proceeds of the loan provided for under the Loan Agreement will be made available to Komineft on the terms and conditions set forth in said Subsidiary Loan Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and the General

Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Komineft declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and oil industry practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Komineft shall maintain the unit set up for the purpose of execution of the Project under the leadership of a suitably qualified manager supported by qualified staff in sufficient numbers.

Section 2.02. Komineft shall take all necessary measures to effectively assist communities impacted by the oil spill in a timely manner in carrying out: (a) Social Assistance Sub-projects under Part A.1 of the Project; and (b) other appropriate interventions not included in the Project.

Section 2.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to this Agreement.

Section 2.04. (a) Komineft shall carry out 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 the Project Agreement.

(b) Without limitation upon the provisions of paragraph (a) of this Section, Komineft shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Komineft, a plan for the future operation of the Project;
- (ii) afford the Bank a reasonable opportunity to exchange views with Komineft on said plan; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 2.05. Komineft shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Komineft shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.06. (a) Komineft shall, at the request of the Bank, exchange views with the Bank with regard to progress of

the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) Komineft shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by Komineft of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of Komineft

Section 3.01. Komineft shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and oil industry practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. Komineft shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and oil industry practices.

Section 3.03. Komineft shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) Komineft shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) Komineft shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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, (A) certified copies of its financial statements for such year as so audited and (B) 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, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, Komineft shall not incur any debt, unless the net revenues of Komineft for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.5 times the estimated maximum debt

service requirement of Komineft for any succeeding fiscal year on all debt of Komineft, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of Komineft.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations adjusted to take account of the Borrower's prices in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and (B) the sum of all expenses related to operations, including administration, adequate maintenance, social payments paid from profits, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) Whenever for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, Komineft shall maintain: (i) a ratio of current assets to current liabilities of not less than 1.25 commencing with the fiscal year ending December 31, 1996; (ii) accounts receivable at a level not greater than 60 days of sales revenues equivalent to the preceding 60 days; and (iii) accounts payable including taxes and payments in lieu of taxes at a level not greater than 75 days of cash expenses equivalent to the preceding 75 days.

(b) Before September 30 in each of its fiscal years, Komineft shall, on the basis of forecasts prepared by Komineft and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such

fiscal year and the following fiscal year and shall furnish to the bank the results of such review upon its completion.

(c) If any such review shows that Komineft would not meet the requirements set forth in paragraph (a) of this Section for Komineft's fiscal years covered by such review, Komineft shall promptly take all necessary measures (including limiting payments of dividends or other payments from profits) in order to meet such requirements.

(d) For the purpose of this Section:

- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (ii) The term "current liabilities" means all the liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (iii) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (iv) Whenever for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payment in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of Komineft thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Komineft thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this 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, telex or radiogram to the party to which it is required or permitted to be given or made at such party's 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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

For Komineft:

OTJSC Komineft
13 Oktyabr'skaya St.
169400 Ukhta
Komi Republic
Russian Federation

Telex:

181413 PARMA

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Komineft or by Komineft on behalf of the Borrower under the Loan Agreement may be taken or executed by the Director General or such other person or persons as the Director General shall designate in writing, and Komineft shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz

Regional Vice President
Europe and Central Asia

OTJSC KOMINEFT

By /s/ Andrei Yakimov

Authorized Representative

SCHEDULE

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of contracts

To the extent practicable, contracts for equipment and materials shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Prequalification

Bidders for contracts in respect of works for pipeline remediation under Parts B.2 and B.3 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods and works, which the Bank agrees can only be purchased from a limited number of suppliers or contracted only from specialized contractors, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods estimated to cost \$200,000 equivalent or less per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

(a) Goods for emergency response and pipeline maintenance

under Part B.4 of the Project and goods in respect of Social Assistance Sub-projects under Part A.1 of the Project estimated to cost \$50,000 equivalent or less per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with paragraphs 3.5 and 3.6 of the Guidelines.

(b) Works in respect of Social Assistance Sub-projects under Part A.1 of the Project estimated to cost \$200,000 equivalent or less per contract may be procured on the basis of comparison and evaluation of at least three bids from qualified contractors, in accordance with procedures acceptable to the Bank.

4. Direct contracting

The management contract for the oil spill containment and clean-up in respect of the activities under Parts A.1, A.2 and A.3 of the Project, the contract in respect of completion of pipeline replacement under Part B.1 of the Project, both due to the emergency nature of such interventions, and contracts for goods and works in respect of Social Assistance Sub-projects under Part A.1 of the Project that can be carried out only by one supplier or contractor in response to the oil spill may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to all contracts procured in accordance with Parts C.1 and C.4 of this Schedule and with respect to all other contracts estimated to cost \$200,000 equivalent or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to all other contracts, the procedures set forth in paragraph 4 of Annex 1 of the Guidelines shall apply.

Section II: Employment of Consultants

1. In order to assist in the carrying out of the Project, consultants shall be employed 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 Consultants' Guidelines). For complex, time-based assignments, such consultants shall be employed under contracts using the standard form of contract for consultants' services issued by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall cause other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants' 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 with consulting firms 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, to single source contracts, to assignments of a critical nature, as reasonably determined by the Bank, or amendments of contracts raising the contract value to \$50,000 equivalent or more. The above also applies for the employment of individuals under contracts of less than \$50,000.

