

CONFORMED COPY

LOAN NUMBER 3723 RO

PETROM PROJECT AGREEMENT

(Petroleum Sector Rehabilitation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

PETROM R.A.

Dated June 1, 1994

LOAN NUMBER 3723 RO

PROJECT AGREEMENT

AGREEMENT, dated June 1, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PETROM R.A. (PETROM).

WHEREAS (A) by the Loan Agreement of even date herewith between Romania (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred seventy five million six hundred dollars (\$175,600,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that PETROM 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 PETROM, a portion of the proceeds of the loan provided for under the Loan Agreement will be relented to PETROM on the terms and conditions set forth in said subsidiary loan agreement; and

WHEREAS PETROM, 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 Part B of the Project

Section 2.01. (a) PETROM 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 Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and petroleum industry practices and in accordance with safety, health and environmental standards satisfactory to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and PETROM shall otherwise agree, PETROM shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. PETROM 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 PETROM Project Agreement and Part B of the Project.

Section 2.04. PETROM shall duly perform all its obligations under the PETROM Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, PETROM shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the PETROM Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) PETROM shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part B of the project, the performance of its obligations under this Agreement and under the PETROM Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

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

## ARTICLE III

### Management and Operations of PETROM

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

Section 3.02. PETROM 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 petroleum industry practices.

Section 3.03. PETROM 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 and Other Covenants

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

(b) PETROM 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, PETROM shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1994, funds from internal sources equivalent to not less than the higher of the annual average of PETROM's: (i) exploration expenditures; or (ii) local capital expenditures, incurred, or expected to be incurred, for the previous year, that year and the next following fiscal year.

(b) Before October 31 in each of its fiscal years, PETROM shall, on the basis of forecasts prepared by PETROM and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank, by December 31 of such year, a copy of such review upon its completion.

(c) If any such review shows that PETROM would not meet the requirements set forth in paragraph (a) for PETROM's fiscal years covered by such review, PETROM shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its oil and gas producer prices in accordance with the recommendations of the agency referred to in Part A (1) (b) of the Project) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
  - (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and
  - (B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital

expenditures.

- (ii) 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.
- (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term "current assets excluding cash" means all assets other than cash 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.
- (v) The term "current liabilities" means all 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.
- (vi) 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.
- (vii) The term "exploration expenditures" means all expenditures on account of oil and gas exploration operations.
- (viii) The term "local capital expenditures" means all expenditures in the currency of the Borrower on account of oil and gas exploration and development operations and on account of fixed assets for transmission and distribution operations, excluding interest charged to construction, related to these operations.
- (ix) 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. PETROM shall:

(a) (i) gradually reduce its accounts receivable, on average, to not more than (A) three months' billing by December 31, 1994, and (B) two months' billing by December 31, 1995, and (ii) thereafter, continue to maintain its accounts receivable at not more than two months' billing;

(b) (i) by October 31 of each year beginning with October 31, 1994, prepare and furnish to the Bank for its review and comments a proposed five-year rolling business plan, prepared in accordance with guidelines satisfactory to the Bank, which shall include projected financial statements and all investments PETROM plans to undertake, including through joint venture arrangements, and (ii) by December 31 of each year, finalize said plan after taking into consideration the Bank's comments thereon, and, thereafter, carry out the same with due diligence and efficiency and in a manner designed to achieve the objectives thereof; and

(c) by December 31 of each year, prepare and furnish to the Bank a report on the measures undertaken and the results obtained during the preceding twelve-months period in achieving its objective to promote joint venture arrangements with international oil companies, including a list of oil field in respect of which such arrangements have been concluded.

#### 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 PETROM thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify PETROM 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:

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

For PETROM:

PETROM, R.A.  
109 Calea Victoriei  
Bucharest  
Romania

Telex:

11720

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 PETROM, or by PETROM on behalf of the Borrower under the Loan Agreement, may be taken or executed by its General Manager or such other person or persons as said General Manager shall designate in writing, and PETROM 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/ Michael H. Wiehen  
Acting Regional Vice President  
Europe and Central Asia

PETROM R.A.

By /s/ Vasile Puscas  
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, PETROM shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, PETROM shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Romania may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Goods and associated services for field services and for environmental protection up to an aggregate amount equivalent to \$2,100,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from

a list of qualified suppliers, acceptable to the Bank, from eligible sources as defined under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Contracts for goods, which the Bank agrees are proprietary, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to the Loan Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

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, PETROM 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 2

Implementation Program

1. In order to facilitate the carrying out of Part B of the Project, PETROM shall: (a) maintain a separate implementation unit, with staff and other resources and terms of reference satisfactory to the Bank, to be responsible for the overall coordination and supervision of the carrying out

of said Part B; (b) establish, by November 1, 1994, and thereafter maintain an environmental management unit, with staff and other resources and terms of reference satisfactory to the Bank, to be responsible for the carrying out of the environmental action plan referred to in subpart (3) of said Part B and for formulating and implementing environmental assessment and safety guidelines; and (c) 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 B.

2. PETROM shall ensure that the corporate restructuring and development program referred to in Part B (1) of the Project will be developed and furnished to the Bank for its review, by December 31, 1994, and, thereafter, finalized, after taking into consideration the Bank's views, and duly carried out in accordance with an action plan satisfactory to the Bank.

3. PETROM shall by October 1, 1994: (a) relinquish all concession areas, which are not being explored or produced as of the date of this Agreement, for inclusion in the exploration program to be carried out under Part A (2) of the Project, by the agency referred to in Part A (1) (b) of the Project; and (b) provide said agency with all data on exploration and production relating to the areas so relinquished.

