

CONFORMED COPY

LOAN NUMBER 4184 RU

Project Agreement

(Enterprise Restructuring Services Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

RUSSIAN PRIVATIZATION CENTER

Dated October 6, 1997

LOAN NUMBER 4184 RU

PROJECT AGREEMENT

AGREEMENT, dated October 6, 1997 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and RUSSIAN PRIVATIZATION CENTER (the Privatization Center), a state-social foundation established pursuant to Decree No. 716 of the President of the Russian Federation of November 23, 1992 and the Founders' Agreement dated October 26, 1992.

WHEREAS by the Loan Agreement of even date herewith between the Russian Federation (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to eighty-five million dollars (\$85,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Privatization Center agree to undertake such obligations toward the Bank as are set forth in this Agreement;

WHEREAS pursuant to the provisions of the Loan Agreement and an Implementation Agreement to be entered into between the Borrower and the Privatization Center (the Implementation Agreement), a portion of the proceeds of the loan provided for under the Loan Agreement will be relented to selected enterprises (the Beneficiary Enterprises, as defined in Section 1.02 of the Loan Agreement) through the Enterprise Restructuring Services Credit Facility; and

WHEREAS the Privatization Center, 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, and the term "Project Implementation Group" means the group referred to in Section 3.02 of this Agreement.

#### ARTICLE II

##### Execution of the Project

Section 2.01. (a) The Privatization Center 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 its respective activities under the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, commercial and business standards and practices and in accordance with the Implementation Agreement, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the carrying out of such activities.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Bank and the Privatization Center shall otherwise agree, the Privatization Center shall carry out its respective activities under the Project in accordance with the applicable provisions of the Implementation Programs set forth in Schedule 5 to the Loan Agreement and in the Schedule to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree procurement of the consultants' services required for the purpose of assisting in the carrying out the respective activities of the Privatization Center under Parts B, C and D of the Project, and to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 6 to the Loan Agreement.

Section 2.03. The Privatization Center shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of its obligations under the Project Agreement and its respective activities under the Project.

Section 2.04. (a) The Privatization Center undertakes to ensure that any enterprise restructuring services which shall be procured by a Beneficiary Enterprise in connection with the carrying out of a Sub-project (or be procured by the Privatization Center on behalf of a Beneficiary Enterprise in appropriate instances pursuant to the provisions of the Implementation Agreement), shall be provided to such Beneficiary Enterprise under a standard restructuring services contract or other arrangements (the Restructuring Services Contract) to be entered into between the Beneficiary Enterprise and the consultants, on appropriate terms and conditions, in accordance with guidelines established by the Borrower for such purposes, which shall be acceptable to the Bank, including inter alia, provisions that:

(i) the Beneficiary Enterprise shall maintain for each such Sub-project adequate records reflecting the receipt and utilization of the services or other facilities provided in connection with the Sub-project; and

(ii) the Beneficiary Enterprise shall make available to the MOE, MOF, the Privatization Center, LERC and the Bank such other information concerning said Sub-project and said Beneficiary Enterprise as the said parties shall from time to time reasonably request.

(b) Each such Restructuring Services Contract shall be subject to approval by the Privatization Center, and the Privatization Center shall ensure the consistency between the Restructuring Services Contract and the Sub-loan Agreement.

Section 2.05. The Privatization Center shall exercise its rights in relation to each Beneficiary Enterprise in such manner as to: (a) protect the interests of the Bank, the Borrower, and the Privatization Center; (b) comply with its obligations under this Agreement and the Implementation Agreement; and (c) achieve the purposes of the Project.

Section 2.06. The Privatization Center shall duly perform all its obligations under the Implementation Agreement. Except as the Bank shall otherwise agree, the Privatization Center shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Implementation Agreement or any provision thereof.

Section 2.07. (a) The Privatization Center shall, at the request of the Bank, exchange views with the Bank with regard to the progress of its respective activities under the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) The Privatization Center 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 the Privatization Center of its obligations under this Agreement.

### ARTICLE III

#### Management and Operations of the Privatization Center

Section 3.01. The Privatization Center shall carry on its operations and conduct its affairs in accordance with its Statutes and in accordance with sound administrative, financial, commercial and business standards and practices, and under the supervision of qualified and experienced management, selected in accordance with the procedures described in the Schedule to this Agreement.

Section 3.02. For the purposes of performing its obligations set forth under this Agreement, and except as the Bank and the Privatization Center shall otherwise agree, the Privatization Center shall establish and maintain a separate project implementation group (the Project Implementation Group) under the administration of the Privatization Center management, having adequate staffing with qualifications and resources and terms of reference sufficient for the purposes of the Project.

### ARTICLE IV

#### Financial and Other Covenants

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

(b) The Privatization Center shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including separate accounts for the Project Implementation Group, as well as for each Sub-loan, 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 (6) 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;

(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. The activities of the Privatization Center under the Project shall be carried out in accordance with procedures for financial control acceptable to the Bank and under an annual operating budget for the Project Implementation Group satisfactory to the Bank, in accordance with the following procedures:

(a) by September 30 of each year, the Privatization Center shall submit, for review and comment by the Bank, a proposal for the next annual operating budget of the Project Implementation Group;

(b) by December 1 of each year, the Privatization Center shall submit evidence to the Bank that an annual operating budget of the Project Implementation Group satisfactory to the Bank has been duly approved by all appropriate action of the MOF; and

(c) by December 1 of each year, the Privatization Center shall submit to the Bank the annual operating budget of the Privatization Center.

Section 4.03. The Privatization Center shall inform the Bank at least thirty (30) days prior to taking any one of the following actions and shall provide to the Bank all such information thereon as the Bank shall reasonably request:

(a) enter into any agreement or arrangement to guarantee or in any way or assume any financial or other obligation of another person, including any subsidiary;

(b) form any subsidiary, or make or permit to exist loans to other persons or investments in any person or enterprise, including any subsidiary;

(c) sell, transfer, lease or otherwise dispose of any of its capital assets (whether in a single transaction or in a series of transactions, related or otherwise);

(d) undertake or permit any merger, consolidation or reorganization;

(e) make any changes to its Statutes; or

(f) enter into any other transaction other than in the ordinary course of business, on ordinary commercial terms and on the basis of arm's length arrangements.

#### 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 the Privatization Center thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Privatization Center 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 (MCI)  
64145 (MCI)

For the Privatization Center:

Gruzinsky Val  
Electrichesky Pereulok, 3  
Building 3, Entrance 3  
P.O. Box 48  
Moscow 123557  
Russian Federation

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 the Privatization Center may be taken or executed by its Chief Executive Officer or such other person or persons as the Chief Executive Officer shall designate in writing, and the Privatization Center 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/ Johannes Linn

Regional Vice President  
Europe and Central Asia

RUSSIAN PRIVATIZATION CENTER

By /s/ Victor Pankraschenko

Authorized Representative

#### SCHEDULE

#### Implementation Program

I. Organization and Management of the Privatization Center

A. Organization and Staffing

1. The organization and the core management staffing of the Privatization Center, as well as the organization and the detailed staffing plan of the Project Implementation Group, shall be acceptable to the Bank, and the positions shall be maintained by qualified staff.

2. Salaries of the Privatization Center staff, including management, shall be maintained within a range for each position acceptable to the Bank.

B. Core Management

1. The Privatization Center shall have a core management including, at a minimum a chief executive officer, a chief financial officer and a chief procurement officer. The Project Implementation Group accountable for the Project management shall have a core management and technical staff, acceptable to the Bank, and allowing the Project Implementation Group to perform management, credit analysis, restructuring, procurement, legal, accounting and disbursement functions.

2. The management of the Privatization Center, under the direction of its chief executive officer, shall be responsible for ensuring overall coordination, management and monitoring of Parts A, B and C of the Project and the relevant obligations of the Privatization Center undertaken in accordance with the Implementation Agreement, including the carrying out of any procurement and disbursement functions for the Project which may be delegated to the Privatization Center by the Borrower.

C. Selection of Core Management

1. The core management positions of the Privatization Center shall be maintained by persons having qualifications and terms of reference acceptable to the Bank.

2. The selection of candidates for management and core professional positions, as necessary, shall be carried out under the direction of the chief executive officer under procedures acceptable to the Bank.

D. Quarterly Reporting

The Privatization Center shall prepare and furnish to the Bank detailed quarterly reports on the execution and operation of the Project and on other matters, pursuant to Section 9.07 of the General Conditions, of a scope and within a timetable acceptable to the Bank.

II. Enterprise Restructuring Services Credit Facility (Part A of the Project)

1. Without prejudice to Section 2.02 of this Agreement, the Privatization Center shall ensure the selection of (pre-qualification of) consultants by the Beneficiary Enterprises under Part A of the Project in conformity with the provisions of Schedule 6 of the Loan Agreement.

2. The Privatization Center shall appraise, and assist in improving, the restructuring potential of the Beneficiary Enterprises and the quality of the enterprise restructuring plans proposed to be implemented in the form of a Sub-project, in accordance with evaluation criteria and operational guidelines specified for such purpose, as shall have been formulated by the MOE, MOF and the Privatization Center acceptable to the Bank.

3. The Privatization Center shall obtain information regarding the operations and financial condition of each Beneficiary Enterprise requesting a Sub-Loan, together with other relevant information concerning the creditworthiness of the Beneficiary Enterprise, sufficient to provide a creditworthiness report to the Evaluation Committee on the basis of which a sound decision may be made with respect to the requested Sub-loan.

4. The Privatization Center shall act as the technical secretariat to the Evaluation Committee and shall endeavor to obtain approvals of the Evaluation Committee for the Sub-Projects in a prompt and efficient manner, undertaking all best

efforts to ensure the issuance of the decision of the Evaluation Committee within ten (10) business days after the submission of the appraised and qualifying Sub-Project to the Evaluation Committee, and to ensure conclusion of all the contracts pertaining to the approved Sub-project within sixty (60) days after the respective approval.

5. The Privatization Center shall furnish to the Bank, for technical evaluation and approval, the enterprise restructuring plans for the first five Sub-Projects and, thereafter, for all the Sub-Projects having Restructuring Services Contracts valued at greater than the equivalent of \$600,000. Each such Sub-Project (regardless of whether the Sub-project is subject to prior Bank review or post-review), shall include a timetable for the restructuring of the enterprise and proposed benchmarks for structuring the remuneration of, and monitoring the performance of, the consultants assigned by the Privatization Center to carry out enterprise restructuring services under the Sub-project.

6. The Restructuring Services Contract between the Beneficiary Enterprises and the Consultants shall be subject to approval of the Privatization Center.

### III. Parts B and C of the Project

The Privatization Center shall furnish to the Bank in accordance with a timetable acceptable to the Bank a plan for managing and executing the activities under Parts B and C of the Project.

