

CONFORMED

LOAN NUMBER 3872 RU

Loan Agreement
(Emergency Oil Spill Recovery and Mitigation Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 25, 1995

LOAN NUMBER 3872 RU

LOAN AGREEMENT

AGREEMENT, dated April 25, 1995, between RUSSIAN
FEDERATION (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 Project will be carried out by OTJSC Komineft
(Komineft) with the Borrower's assistance and, as part of such
assistance, the Borrower will make available to Komineft the
proceeds of the Loan as provided in this Agreement; and

(C) the Borrower intends to contract from the European
Bank for Reconstruction and Development (EBRD) a loan (the EBRD
Loan) in an amount of \$25,000,000 to assist in financing the
Project on the terms and conditions set forth in an agreement
(the EBRD Loan Agreement) to be entered into between the
Borrower and EBRD; 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 and in the
Project Agreement of even date herewith between the Bank and
Komineft;

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) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

- (c) 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) "Komineft" means OTJSC Komineft incorporated under its Charter dated, and registered on May 6, 1993 (the "Charter"), as amended from time to time;
- (b) "Project Agreement" means the agreement between the Bank and Komineft 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 Project Agreement; and
- (c) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Komineft pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement.

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 ninety nine million dollars (\$99,000,000), 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. 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be March 31, 1998 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 per cent (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 semi-annually 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.

Section 2.08. Komineft is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Komineft to perform in accordance with the provisions of the Project Agreement all the obligations of Komineft 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 Komineft to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to Komineft under a subsidiary loan agreement to be entered into between the Borrower and Komineft under terms and conditions which shall have been approved by the Bank and which shall include: (i) fifteen years maturity with five years grace period; (ii) an interest rate at the Bank's rate as determined according to the provisions of Section 2.05 of this Agreement plus 0.75% as premium; and (iii) the foreign exchange risk to be borne by Komineft.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement 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 the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. 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) shall be carried out by Komineft pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Remedies of the Bank

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Komineft shall have failed to perform any of its obligations under the Project Agreement.

(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 Komineft will be able to perform its obligations under the Project Agreement.

(c) The Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and

adversely the ability of Komineft to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Komineft or for the suspension of its operations.

(e) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the proceeds of the EBRD Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms and conditions set forth in the EBRD Loan Agreement, or (B) the EBRD 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 or Komineft establish to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of Komineft to perform any of its obligations under the EBRD Loan 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 Komineft under the Project Agreement.

Section 4.02. 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 4.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) the events specified in paragraphs (c) and (d) of Section 4.01 of this Agreement shall occur; and

(c) the event specified in paragraph (e) (i) of Section 4.01 of the Agreement shall occur, subject to the proviso of Paragraph (ii) of that Section.

ARTICLE V

Effective Date; Termination

Section 5.01. 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) all conditions precedent to the effectiveness of the EBRD Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and Komineft in accordance with the provisions of Section 3.01 (b) of this Agreement.

Section 5.02. 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 Project Agreement has been duly authorized or ratified by Komineft and is legally binding upon Komineft in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Komineft and is

legally binding upon the Borrower and Komineft in accordance with its terms.

Section 5.03. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 of this Agreement, the Minister of Finance or the Deputy Minister of Finance of the Borrower are designated as representatives of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
1 Ilyinka Street 9
103097 Moscow
Russian Federation

Telex:

112008

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)

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.

RUSSIAN FEDERATION

By /s/ Anatoly Chubais

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz

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) Management of containment and clean up activities under Parts A.1 through A.3 of the Project	36,000,000	80% of foreign expenditures
(2) Pipeline replacement works under Part B.1 of the Project	12,800,000	80% of foreign expenditures and 62% of local expenditures
(3) Pipeline remediation works under Parts B.2 and B.3 of the Project	16,700,000	100% of foreign expenditures and 77% of local expenditures
(4) Goods	5,300,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 77% of local expend- itures for other items procured locally
(5) Consultants' Services under Parts A.4, B.2 and C of the Project	9,100,000	100% of foreign expenditures and 77% of local expenditures
(6) Social Assistance Sub-projects under Part A.1 of the Project	1,600,000	80% of foreign expenditures and and 62% of local expenditures
(7) Unallocated	17,500,000	
TOTAL	99,000,000	

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, provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures."

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 exceeding the equivalent of \$20 million, may be made on account of payments made for expenditures before that date but after March 1, 1995.

SCHEDULE 2

Description of the Project

The objectives of the Project are to stabilize the oil spill area along the Kharyaga-Usinsk pipeline prior to the 1995 spring thaw to minimize the amount of oil released during runoff and prevent ecological damage in the Pechora river basin, continue the clean up in an environmentally appropriate way and minimize, to the extent possible, damage to the impacted areas, support safe pipeline operations in the near term and evaluate the need for a replacement pipeline investment project for the longer term, and identify and implement other measures to mitigate against future oil spills.

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: Spill Containment and Clean-up

1. Oil containment works, including site assessment, construction of access roads, reinforcement of existing dikes and construction of new dikes and other structures for oil containment, recovery and processing of oil where possible and pre-staging of equipment for recovery of oil that will be released during spring flooding and implementation of social assistance sub-projects (Social Assistance Sub-projects), selected in accordance with criteria approved by the Bank, to carry out emergency mitigation measures necessitated by the oil spills in affected communities, as identified with state farms and communities in the area, including emergency interventions for public health, water supply interventions and provision of forage for livestock.

2. Oil removal works, with the primary focus on removing as much potentially mobile oil as possible at the existing oil spill sites followed by site restoration and remediation measures.

3. Establishment of an emergency response capability for oil releases on downstream rivers, including monitoring for and collection of floating oil slicks, protection of water intakes threatened by oil slicks, removal of stranded oil along the river banks, and mitigation of impacts resulting from oil contamination in the affected communities.

4. Establishment of an environmental monitoring and management program for the oil spill containment and clean-up activities.

Part B: Pipeline Rehabilitation:

1. Completion of the construction of 67.9 km of partially constructed pipeline through the replacement of the southern and middle sections of the Kharyaga-Usinsk pipeline.

2. Carrying out of an integrity assessment and technical inspection of the Kharyaga-Usinsk pipeline, and repair or replacement of pipeline segments as required.
3. Completion of water removal separation facilities to remove corrosive brine from produced oil and installation of other facilities along the Kharyaga-Usinsk pipeline to improve operations efficiency and reduce the risk of failures.
4. Establishment and carrying out of a pipeline maintenance and emergency response plan and provision of equipment and materials needed for its implementation.

Part C: Institutional Strengthening of Komineft

1. Carrying out of studies to review the pipeline operating practices of Komineft, to establish guidelines for safe and efficient pipeline operation, and to undertake feasibility studies and strategic evaluation of options for future pipeline investments.
2. Training of Komineft personnel in oil spill counter measures, emergency response, oil field and pipeline rehabilitation.
3. Preparation and execution of an environmental and social monitoring program and strengthening of the institutional and environmental management capacity of Komineft to mitigate the effects of oil spills.
4. Provision of monitoring services to assist in the supervision of works under Parts A.1 through A.3 and B.1 of the Project.

The Project is expected to be completed by September 30, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each May 1 and November 1	
beginning November 1, 2000 through May 1, 2012	4,125,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions 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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

