

CONFORMED COPY

LOAN NUMBER 4382 RU

Loan Agreement

(Third Structural Adjustment Loan)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

Dated August 6 , 1998

LOAN NUMBER 4382 RU

LOAN AGREEMENT

AGREEMENT, dated August 6, 1998, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated July 17, 1998 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

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 for Single Currency Loans" of the Bank, dated May 30, 1995 as amended through December 2, 1997, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11,18, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 4.01 is modified to read: "Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.";

(c) Section 5.01 is modified to read: "The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.";

(d) The last sentence of Section 5.03 is deleted.

(e) Section 9.07 (c) shall be modified to read:

"(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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

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

(b) "Joint Stock Company Law" means the Law "On Joint Stock Companies" No. 208-FZ, dated December 26, 1995;

(c) "Law on Production Sharing Agreements" means the Law No. 225-FZ, dated December 30, 1995;

(d) "RAO Gazprom" means the legal entity established by the Decree of the President of the Russian Federation, dated November 5, 1992, No. 1333; and

(e) "RAO UES Rossii" means the Russian Unified Electric Systems Company, the legal entity established pursuant to the Decree of the President of the Russian Federation, dated August 15, 1992, No. 923.

## 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, an amount equal to one billion five hundred million Dollars (\$1,500,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account:

(i) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$300,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(A) with the progress achieved by the Borrower in the carrying out of Program;

(B) that the actions described in Section I of Schedule 3 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program;

(ii) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$800,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(A) with the progress achieved by the Borrower in the carrying out of Program;

(B) that the actions described in Section II of Schedule 3 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program;

(e) If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iii) "LIBOR Total Spread" means, for each Interest Period: (A) one-half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on April 15 and October 15 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 2 to this Agreement.

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall at least time to time, each month during execution of the Program or at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six (6) months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1)(p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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. The Minister of Finance or the Deputy Minister of Finance responsible for international economic affairs of the Borrower is designated as representative 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  
Ul. Ilyinka, 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:

248423 (MCI) or  
64145 (MCI)

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/ Yuli Vorontsov

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes Linn

Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
not 122	-	Tobacco, manufactured (whether or containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718 thereof; fuel for	718.7	Nuclear reactors, and parts elements (cartridges), non-irradiated, nuclear reactors
728.43	728.43	Tobacco processing machinery
897 platinum	897.3	Jewelry of gold, silver or group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import

of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

## SCHEDULE 2

### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On each April 15 and October 15	
beginning April 15, 2002 through October 15, 2005	187,500,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

## SCHEDULE 3

Section I: Actions Referred to in Section 2.02 (d) (i) (B) of this Agreement

Section 1.

1. RAO GAZPROM has reorganized its regional transmission operations into a single integrated transmission enterprise or into a number of transmission enterprises solely being responsible for gas transmission services, established in compliance with the Civil Code and based on major transmission corridors. RAO GAZPROM has further

established separate management, separate accounts based on international accounting standards and audited in accordance with international standards for auditing, and separate cost/profit responsibility for the new transmission enterprise or enterprises, the production enterprises, and its gas wholesaling enterprise or enterprises.

2. The Borrower has established a revised system of gas excise taxes which applies the production rent component of the tax at the level of monopoly producers, including producers which are part of the Gazprom system, Yakutskgazprom, Norilskgazprom and Sakhalinmerneftegaz, in a manner agreed upon by the Borrower without reducing Federal tax revenue. and the Bank.

3. The Law on Introduction of Changes and Additions to Legislative Acts proposed law on the introduction of changes and additions to legislative acts of the Russian Federation ensuing from the Law on Production Sharing Agreements, the implementation regulations relating to the Law on Production Sharing Agreements and any necessary amendments to the existing tax legislation to harmonize its provisions with the tax regime provided for in the Law on Production Sharing Agreements have been enacted and entered into force.

4. The Borrower is current with the implementation of the measures set forth in the privatization program action plan agreed upon by the Borrower and the Bank.

5. An amendment to the Joint Stock Company Law has been adopted and entered into force providing for adequate protection of minority shareholders.

6. The proposed law on licensing has been adopted and entered into force.

7. The Borrower has issued a formal decision requiring all consumers of gas, heat and electricity to make payments for their purchases of gas heat and electricity into escrow accounts established jointly by producers, transporters, distributors and any other entities in the supply chain and has furnished a report to the Bank demonstrating it has taken all measures necessary on its part for the implementation of such decision.

Section II. Actions referred to in Section 2.02 (d) (ii) (B) of this Agreement

1. The Borrower's Federal Energy Commission has introduced differentiated and separate prices for gas production, transmission and supply (delivery) services fully reflective of a revised methodology agreed upon by the Borrower and the Bank.

2. A new New oil pipeline legislation has been adopted and entered into force.

3. The board of directors of RAO UES Rossii has adopted a plan for the establishment of a sufficient number of independent generation companies as legal subsidiaries of RAO UES Rossii to enable effective competition.

4. The Borrower is current with the implementation of the measures set forth in the privatization action plan agreed upon by the Borrower and the Bank. program

5. The proposed laws on state and municipal land, on the state land cadastre, on the appraisal of land and on land management have been adopted and entered into force.

6. The proposed law on auditing has been adopted and entered into force providing for gradual transition of regulatory powers relating to auditing from the Federal bodies to a self-regulating independent auditing profession and regulations have been issued defining thirty-three (33) auditing standards in accordance with international standards for auditing.

7. The Borrower has submitted to the Duma appropriate legislative drafts on sub-national fiscal reform or has issued other legal acts to provide for clear assignments of revenue and expenditure responsibilities for each level of government consistent with the concept papers prepared by the Borrower under the Program.

8. The Borrower has provided to the Bank a report, in such scope as has been agreed upon by the Borrower and the Bank, demonstrating that the accounts payable of Federal budget organizations to infrastructure monopolies do not exceed thirty (30) days of



current sales incurred after July 1, 1998 and Federal transfer payments to regions are made in compliance with the principles set forth in Presidential Instruction No. PR-994, dated July 17, 1998.

9. The Borrower has taken all measures necessary (i) to include guarantees, other public contingent liabilities or conditional obligations in the definition of public debt applicable to the federal and sub-national level; (ii) to establish a public debt monitoring system including a comprehensive monitoring system of sub-national debt portfolios; (iii) to establish transparent prudential limitation and preconditions for sub-national borrowing; and (iv) to provide for verification by the Borrower's Ministry of Finance that any sub-national debt is incurred in accordance with such limitations and preconditions for it to become a valid obligation of the respective sub-national entity.

