Loan Agreement

(Kazan Municipal Development Loan)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 3, 2005
AGREEMENT, dated June 3, 2005, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated February 4, 2005, from Republic of Tatarstan a letter dated December 9, 2004, and from the Mayor of the city of Kazan (the City) a letter dated December 13, 2004, describing a program of actions, objectives and policies to strengthen and reform the economy of the City (hereinafter called the Program), declaring the Borrower’s, Republic of Tatarstan’s and the City’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof;

(B) the Program shall be executed by the City with the Borrower’s and Republic of Tatarstan’s assistance and, as part of such assistance, the Borrower shall make available the proceeds of the Loan to the City as provided in this Agreement; and

(C) 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 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 May 1, 2004), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 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 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Central Bank” means the Central Bank of the Borrower;

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

(c) “Grant Agreement” means the agreement referred to in Section 3.01 of this Agreement, as the same may be amended from time to time;

(d) “MOF” means the Borrower’s Ministry of Finance; and

(e) “Rubles” means the national currency of the Borrower.
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 hundred twenty five million Dollars ($125,000,000).

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 amount of $125,000,000 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 or another bank acceptable to the 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) unless the Bank has received the payment of the fee referred to in Section 2.04 of this Agreement; and (ii) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the amount of $50,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.03 of this Agreement based on evidence satisfactory to the Bank:

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

(B) that the macroeconomic policy framework of the Borrower and the City is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank; and

(C) that the actions described in Schedules 3 to this Agreement have been taken.
If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower or the City shall not have taken steps satisfactory to the Bank, in respect of (A), (B), and (C) above, as the case may be, 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, 2006 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 fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

Section 2.05. 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 2.06. (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) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.

(iii) “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.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 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, 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 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. 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) For the purposes of the Program implementation the Borrower shall make the equivalent of the proceeds of the Loan in local currency available to the City on a grant basis under the Grant Agreement to be entered into among the Borrower, represented by the MOF, the Republic of Tatarstan and the City, under terms and conditions acceptable to the Bank.

(b) The Borrower shall, and shall cause the Republic of Tatarstan and the City, to exercise their rights under the Grant Agreement in such a manner as to protect the interests of the Borrower, the Bank, the Republic of Tatarstan and the City, and to accomplish the purposes of the Program, and, except as the Bank shall otherwise agree, not to assign, amend, abrogate or waive the Grant Agreement or any provision thereof.

Section 3.02. The Borrower, the Republic of Tatarstan and the City shall carry out the Program in accordance with the provisions of the Grant Agreement with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and provide, promptly as needed, the funds, facilities, services and other resources required for the Program.
Section 3.03. (a) The Borrower, the City and the Bank shall from time to time, at the request of any of the three parties, 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 and the City 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 and the City 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 3.04. The Borrower shall:

(a) have the Deposit Account and the entire flow of the Loan funds, until it reaches the City’s account in its Central Bank audited by independent auditors acceptable to the Bank not later than four months after the disbursement of each Loan tranche;

(b) furnish to the Bank as soon as available, but in any case not later than one month after completion of such audit, a certified copy of the report of such audit, 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, the Loan flow of funds and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Events of Suspension

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

(a) The Borrower, the Republic of Tatarstan or the City shall have failed to perform any of its obligations under the Grant Agreement.

(b) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

Section 4.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any event specified in
Section 4.01 (a) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Grant Agreement has been executed among the Borrower, the Republic of Tatarstan and the City.

Section 5.02. The following is specified as an additional matter, 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, namely, that the Grant Agreement has been duly authorized by the Borrower, the Republic of Tatarstan and the City and is legally binding upon the Borrower, the Republic of Tatarstan and the City 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. The Minister of Finance 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  
of the Russian Federation  
Ilyinka Street 9  
103097 Moscow  
Russian Federation

Telex: 112008  
Facsimile: (7-095) 925-0889
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
Telex: 248423 (MCI) or 202) 477-6391
Facsimile: 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 city of Moscow, Russian Federation, as of the day and year first above
written.

RUSSIAN FEDERATION

By /s/ Sergei Anatolievich Storchak
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kristalina Georgieva
Authorized Representative
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:

<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>-</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td>-</td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>Group</td>
<td>Subgroup</td>
<td>Description of Items</td>
</tr>
<tr>
<td>-------</td>
<td>----------</td>
<td>----------------------</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

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 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

<table>
<thead>
<tr>
<th>Payment Due</th>
<th>Payment of Principal (Expressed in Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td></td>
</tr>
<tr>
<td>beginning November 15, 2010 through November 15</td>
<td>5,210,000</td>
</tr>
<tr>
<td>On May 15, 2022</td>
<td>5,170,000</td>
</tr>
</tbody>
</table>
SCHEDULE 3
Actions Referred to in Section 2.02 (d) of this Agreement

A.  Budget and Financial Management Strengthening

1.  Budget Planning and Execution

   (a) The 2006 fiscal year budget with the concept and parameters satisfactory to the Bank has been approved by the City.

   (b) The City has demonstrated that there are no new overdue payables of the City budget and budgetary institutions from end-2004 to end 2005.

2.  Municipal Treasury

    The City has demonstrated that a viable system of Treasury-execution of the municipal budget has been established based on a single account concept for budgetary funds, and funds are channeled solely through the Borrower’s Central Bank.

B.  Social Protection System

1.  Implementation Capacity for Social Protection Programs

    The City has demonstrated improvements, satisfactory to the Bank, in the implementation capacity for social protection programs.

2.  Transparency

    The City has demonstrated that:

    (a) payment of monetized social and housing and communal service benefits using individual accounts has been introduced and is under implementation; and

    (b) sufficient resources in the form of subvention from the Republic of Tatarstan have been allocated in the 2006 City budget for payment of monetized benefit.

3.  Social Assistance Targeting

    The targeted poverty benefit has been successfully implemented, and the 2006 City budget allocates not less than 75 million Rubles for the City’s own social protection expenditures for its financing, and social contract practice is utilized.
C. Housing and Communal Services Strengthening

1. Financial Conditions of the Sector

   The City has demonstrated satisfactory improvements in the housing and communal sector.

2. Governance

   The City’s water and wastewater facilities are managed by a competitively selected private operator.