

CONFORMED COPY

LOAN NUMBER 3500 PAK

(Domestic Energy Resources Development Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 1, 1992

LOAN NUMBER 3500 PAK

LOAN AGREEMENT

AGREEMENT, dated October 1, 1992, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (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 Borrower, through its Directorate General for Petroleum Concession (DGPC) has entered into a joint venture agreement with private partners for petroleum exploration, development and production in the Badin Block area, located in the lower Indus region;

(C) the Oil and Gas Development Corporation of the Borrower has entered into joint venture agreements for petroleum exploration, development and production in the Jacobabad and Khairpur District in the Sindh Province, which resulted in the discovery of the Qadirpur

and the Kadanwari Gas Fields;

(D) the Project will be carried out in part by the Borrower and in part, with the Borrower's assistance, by the Borrower's Oil and Gas Development Corporation (OGDC) and Sui Northern Gas Pipeline Company Limited (SNGPL) and, as part of such assistance, the Borrower will make available to OGDC and SNGPL a portion of the proceeds of the Loan as provided in the Agreement; 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 OGDC and the Project Agreement between the Bank and SNGPL;

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) 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) "OGDC Project Agreement" means the agreement between the Bank and OGDC 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 OGDC Project Agreement;

(b) "SNGPL Project Agreement" means the agreement between the Bank and SNGPL of even date herewith, as the same may be amended from time to time, and such terms includes all schedules and agreements supplemental to the SNGPL Project Agreement;

(c) "OGDC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and OGDC 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 OGDC Subsidiary Loan Agreement;

(d) "SNGPL Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SNGPL 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 SNGPL Subsidiary Loan Agreement;

(e) "Subsidiary Loan" means either of the loans provided under the OGDC Subsidiary Loan Agreement or the SNGPL Subsidiary Loan Agreement;

(f) "MPNR" means the Borrower's Ministry of Petroleum and Natural Resources;

(g) "LPG" means liquified petroleum gas;

(h) "MPNR Special Account" means the account to be opened in the name of MPNR pursuant to Section 2.02 (b) of this Agreement;

(i) "OGDC Special Account" means the account to be opened in the name of OGDC pursuant to Section 2.02 (b) of this Agreement;

(j) "SNGPL Special Account" means the account to be opened in the name of SNGPL pursuant to Section 2.02 (b) of this Agreement;

(k) "Special Accounts" means the MPNR, OGDC and SNGPL Special Accounts;

(l) "Qadirpur Joint Venture Agreement" means (i) the Petroleum Concession Agreement for the area encompassing the Qadirpur Gas Field referred to in Part A (1) of the Project between the Borrower and the concessionaries, namely, OGDC, Burma Oil, B.V., Premier Oil Company and Pakistan Petroleum Limited, and (ii) the Joint Operating Agreement defining the respective obligations of the Borrower and the concessionaires in connection with the exploration and development of oil and gas discoveries in such area;

(m) "Kadanwari Joint Venture Agreement" means (i) the Petroleum Concession Agreement for the Tajjal area, encompassing the Kadanwari Gas Field referred to in Part A (2) of the Project between the Borrower and the concessionaires, namely, OGDC, LASMO Oil, Idemitsu and Kuwaiti Foreign Petroleum Company, and (ii) the Joint Operating Agreement defining the respective obligations of the Borrower and the concessionaires in connection with the exploration and development of oil and gas discoveries in such area;

(n) "Badin Joint Venture Agreement" means (i) the Petroleum Concession Agreement for the area encompassing the Badin Gas Field referred to in Part A (3) of the Project between the Borrower and the concessionaires, namely, the Directorate General for Petroleum Concessions of MPNR, Union Texas (Pakistan) and Occidental Petroleum Company, and (ii) the Joint Operating Agreement defining the respective obligations of the Borrower and the concessionaries in connection with the exploration and development of oil and gas discoveries in such area;

(o) "Joint Venture Agreements" means the agreements referred to in the preceding paragraphs (l), (m) and (n) of this Section;

(p) "Operator" means the Operator specified under any Joint Operating Agreement, namely: (i) in respect of Qadirpur Joint Venture, OGDC; (ii) in respect of Kadanwari Joint Venture, Lasmo Oil; and (iii) in respect of Badin Joint Venture, Union Texas (Pakistan);

(q) "Operating Payment" means the demand made by the Operator on the Borrower or OGDC, as the case may be, for payment of their respective share of expenses in accordance with the provision of the relevant Joint Operating Agreement; and

(r) "Ordinance" means the Oil and Gas Development Corporation Ordinance of the Borrower, dated September 20, 1961, as amended from time to time;

(s) "Rupees" means the currency of the Borrower;

(t) "EAR" means the Environmental Assessment Report prepared in respect of the Project, dated August 17, 1991;

(u) "MMCFD" means million cubic feet per day;

(v) "HDIP" means the Hydrocarbon Development Institute of Pakistan; and

(w) "Petroleum Policy" means the statement of the Borrower's Petroleum Policy, published by MPNR in November 1991.

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 one hundred eighty million dollars (\$180,000,000), 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. (a) 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.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars three special deposit accounts (the MPNR Special Account, the OGDC Special Account and the SNGPL Special Account) in the National Bank of Pakistan or in any other commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1996 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 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 semiannually on February 1 and August 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.

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: (i) carry out Parts A (3) and B (3) of the Project through MPNR with due obligation and efficiency and in conformity with appropriate administrative, engineering and financial practices and shall provide promptly as needed, the funds, facilities, services and other resources required for Parts A (3) and B (3) of the Project; and (ii) cause OGDC and SNGPL to perform in accordance with the provisions of the OGDC Project Agreement and the SNGPL Project Agreement all their obligations 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 OGDC and SNGPL 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 to: (i) OGDC under the OGDC Subsidiary Loan Agreement, the amount of the Loan allocated from time to time under Categories (1) (a) and (3) (a) of the table set forth in Schedule 1 to this Agreement; and (ii) SNGPL under the SNGPL Subsidiary Loan Agreement, the amount of the Loan allocated from time to time under Categories (2) and (3) (b) of said table. The OGDC Subsidiary Loan Agreement and the SNGPL Subsidiary Loan Agreement shall be concluded under terms and conditions which shall have been approved by the Bank, which shall include the following terms and conditions:

(A) the proceeds of each Subsidiary Loan shall be denominated in the same currency or currencies in which withdrawal of the corresponding amounts of the Loan shall be made from the Loan Account and shall be repaid in the same currency or currencies in which such corresponding amount shall be repayable to the Bank or in the Rupee equivalent of such corresponding amounts determined as of the respective date of repayment.

- (B) each Subsidiary Loan shall be repaid over the same maturity period specified for the amortization of the Loan in accordance with Schedule 3 to this Agreement; and
- (C) OGDC and SNGPL shall pay to the Borrower, in respect of the withdrawn and outstanding amount of their respective Subsidiary Loans, interest at an annual rate which shall at least be equal to the interest rate applicable to the Loan from time to time pursuant to Section 2.05 of this Agreement plus one-tenth of such rate.

(c) Without limitation to the generality of the provisions of paragraph (a) of this Section, the Borrower specifically undertakes: (i) to assist in the carrying out of the study referred to in Section 3.05 of the OGDC Project Agreement and in the review and implementation of measures recommended thereunder; (ii) to assist OGDC to recruit the staff referred to in Section 3.06 of the OGDC Project Agreement; and (iii) to take promptly all actions required on its part to enable OGDC to comply with its obligations under Sections 3.06, 4.02 and 4.03 of such Agreement.

Section 3.02. The Borrower shall: (a) cause MPNR, by June 30, 1992, to review with the Bank the report containing the findings and recommendations of the study which is being currently undertaken of the capacity and organization of MPNR's secretariat and technical directorates and of HDIP, and to prepare, on the basis of such review, an action plan satisfactory to the Bank for the implementation of such recommendation; and (b) thereafter carry out such action plan in accordance with the time schedule stated therein.

Section 3.03. Except as the Bank shall otherwise agree: (i) procurement of the goods, works and services required under Parts A (3) and B (3) of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement; and (ii) procurement of the goods, works and services required under the Project (other than the Parts A (3) and B (3) thereof) and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to each of the OGDC Project Agreement and the SNGPL Project Agreement.

Section 3.04. 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) in respect of Parts A (except Part A (3)) and Parts B (1) and (2) of the Project shall be carried out by OGDC and SNGPL pursuant to Section 2.03 of each of the OGDC Project Agreement and the SNGPL Project Agreement.

Section 3.05. The Borrower shall cause MPNR: (a) to furnish to the Bank for its review and verification, as soon as available, each monthly statement of actual expenses incurred under the Joint Operating Agreement related to the Badin Joint Venture, prepared by the Operator in support of Operating Payments for the immediately preceding month; (b) to furnish to the Bank the annual report of expenditures billed by the Operators to the other partners under said Joint Operating Agreement promptly upon their preparation, but in any event not later than six months after the end of the Operator's fiscal year; such reports having been prepared or certified by independent auditors acceptable to the Bank; and (c) to ensure that representatives of the Bank shall have access to all technical reports, data, records and facilities of the Badin Joint Venture related to the implementation of Part A (3) of the Project, the verification of Operating Payments or the assessment of the financial position of the Badin Joint Venture.

Section 3.06. The Borrower shall cause MPNR to prepare, in accordance with a format satisfactory to the Bank, and to furnish to the Bank quarterly reports on progress in the carrying out of Parts A (3) and B (3) of the Project.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall cause MPNR:

- (i) to maintain records and accounts adequate to reflect in accordance with sound accounting practices its resources and expenditures in respect of Parts A (3) and B (3) of the Project;
- (ii) to have such records and accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (iii) to furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and
- (iv) to furnish to the Bank such other information concerning said records and accounts and the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Accounts 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 the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.03. The Borrower shall: (a) take, by December 31, 1992, the measures necessary to enable implementation of the Petroleum Policy; and (b) review with the Bank, by June 30 in each year, the progress achieved in such implementation.

Section 4.04. The Borrower shall cause MPNR to formulate, by December 31, 1992, with the assistance of appropriately qualified consultants, guidelines for environmental assessment and safety with respect to petroleum exploration and development activities.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) OGDC or SNGPL shall have failed to perform any of its obligations under the OGDC Project Agreement or the SNGPL Project Agreement, respectively.

(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 OGDC or SNGPL will be able to perform its obligations under the OGDC Project Agreement or the SNGPL Project Agreement, respectively.

(c) The Ordinance shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of OGDC to perform any of its obligations under the OGDC Project Agreement.

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

(e) Any of the Joint Venture Agreements shall have been amended, assigned, abrogated or waived in such a manner as, in the opinion of the Bank, would materially and adversely affect the carrying out of the Project or the ability of OGDC to perform its obligations under the OGDC Project Agreement.

(f) Any of the Operators shall have been changed without the Bank's concurrence.

Section 5.02. 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 5.01 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; and

(b) any of the events specified in paragraphs (c), (d), (e) or (f) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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) the OGDC Subsidiary Loan Agreement and the SNGPL Subsidiary Loan Agreement have been executed on behalf of the Borrower and OGDC and on behalf of the Borrower and SNGPL, respectively;

(b) the PC-1 document for the spur pipeline referred to in Parts A (6) of the Project has been approved by the Borrower;

(c) OGDC has selected the consultants required to assist it in the design of the accounting system, referred to in Section 4.03 (a) of the OGDC Project Agreement and the establishment of the management information system referred to in Part B (1) (i) of the Project;

(d) OGDC has furnished to the Bank a report prepared, in accordance with technical standards satisfactory to the Bank, by an international reservoir engineering firm as to the estimate of the recoverable reserves at the Qadirpur Gas Field referred to in Part A (1) of the Project;

(e) OGDC and SNGPL has entered into: (i) a contract regarding the arrangements and prices for the guaranteed purchase by SNGPL (on a take or pay basis) from the Dhodak Gas Field of about 45 MMCFD of gas for a period of 15 years, commencing in 1993; and (ii) a contract regarding the arrangements and prices for the guaranteed purchase by SNGPL (on a take or pay basis) for a period of 20 years from the Qadirpur Gas Field of 100 MMCFD in the year 1993, to be increased in the year 1994 to 200 MMCFD;

(f) OGDC has appointed a director for its technical services with suitable qualifications and experience; and

(g) the Borrower has offered its existing equity shares in SNGPL for sale to the general public so as to reduce the Borrower's direct and indirect shareholding in SNGPL to forty percent (40%).

Section 6.02. 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 OGDC Project Agreement and the SNGPL Project Agreement have been duly authorized or ratified by OGDC and SNGPL, and are legally binding upon OGDC and SNGPL, respectively, in accordance with their terms; and

(b) that the OGDC Subsidiary Loan Agreement and the SNGPL Subsidiary Loan Agreement have been duly authorized or ratified by the Borrower and OGDC and by the Borrower and SNGPL, respectively, and are legally binding upon the same in accordance with their terms.

Section 6.03. The date 120 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Economic Affairs Division
Islamabad, Pakistan

Cable address:

ECONOMIC
Pakistan

Telex:

ECDIV-05-634

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

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.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Arshad Farooq

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ D. Joseph Wood

Regional Vice President
South Asia

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) Operating Payments:		(a) 100% of foreign expen- ditures with respect to con- tracts for the supply of goods only, and (b) 85% with respect to turn-key con- tracts providing for the supply of goods in addi- tion to associated works and services
(a) OGDC's shares		
(i) under Part A (1) of the Project	55,000,000	
(ii) under Part A (2) of the Project	24,000,000	
(b) Borrower's share under Part A (3) of the Project	36,000,000	

(2) Installation of and equipment for pipelines under Part A (5), (6) and (7) of the Project	56,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
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Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Consultants' services:		100%
(a) for Part B (1) of the Project	2,000,000	
(b) for Part B (2) of the Project	500,000	
(c) for Part B (3) of the Project	2,500,000	
(4) Unallocated	4,000,000	
TOTAL	180,000,000 =====	

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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$18,000,000 may be made on account of payments for expenditures under Categories (1) and (2) in the table in paragraph 1 of this Schedule before that date but after February 1, 1991;

(b) expenditures under Category (1) (a) (ii) of the table in paragraph 1 of this Schedule until the Bank has been furnished with: (i) plans satisfactory to the Bank for the utilization of gas expected to be produced from the Kadanwari Gas Field referred to in Part A (2) of the Project; and (ii) a confirmation of reserves at said Kadanwari Gas Field, prepared by an international reservoir engineering firm; and

(c) expenditures under Category (1) of the table in paragraph 1 of this Schedule if supporting documentation to be furnished to the Bank pursuant to Section 3.05 of this Agreement and Section 2.08 (a) of the OGDC Project Agreement, for earlier withdrawals in respect of Operating Payments was not furnished or was insufficient or unsatisfactory in the opinion of the Bank.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's

strategy for the development of its hydrocarbon resources through assisting in: (a) the efficient development of such resources with the maximum participation of the private sector; (b) enhancing the commercial orientation and autonomy of the public sector entities operating in the subsector of oil and natural gas; and (c) strengthening the regulatory and policy making role of the Borrower's agencies responsible for the subsector.

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: Development of Gas and Oil Fields and Related Facilities

- (1) Development of the Qadirpur Gas Field in accordance with the plan agreed under the Qadirpur Joint Venture Agreement, including drilling of about nine additional wells and installation of production facilities.
- (2) Development of the Kadanwari Gas Field in accordance with the plan agreed under the Kadanwari Joint Venture Agreement, including drilling of about seven development wells and installation of production facilities.
- (3) Development of the area covered under the Badin Joint Venture Agreement, including the drilling of about eleven wells and implementation of a program to maintain the level of oil production and to increase gas production.
- (4) Installation of a condensate plant at Dhodak, comprising a gas dehydration unit, LPG recovery unit, condensate stabilization unit, surface gathering facilities and a topping plant with associated facilities.
- (5) Construction of a 84 km gas pipeline between Dhodak and Kot Addu.
- (6) (a) Construction of (i) about 60 km spur pipeline for the transmission of gas from Qadirpur Gas Field to the main Sui-Multan Gas Trunkline; and (ii) about 50 km of pipeline for the transmission of gas between Rahimyar Khan and Uch.
(b) Installation of 9 compressor units (6 new and 3 in stock), together with required discharge gas cooling equipment.
- (7) Installation of telemetry and telecontrol equipment.

Part B: Institutional Development

- (1) Assistance to OGDC in: (i) establishment of a modern accrual-based accounting system and a comprehensive management information system; (ii) establishment and operation of an environmental management unit; and (iii) assessment of the feasibility of privatizing its technical services.
- (2) Assistance to SNGPL in upgrading the technical supervisory control and data acquisition facilities.
- (3) Assistance for MPNR in the carrying out of the Petroleum Policy and for upgrading the capacity of its secretariat and technical directorates and of HDIP.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
February 1, 1998	3,280,000
August 1, 1998	3,410,000
February 1, 1999	3,540,000
August 1, 1999	3,680,000
February 1, 2000	3,820,000
August 1, 2000	3,970,000
February 1, 2001	4,120,000
August 1, 2001	4,280,000
February 1, 2002	4,445,000
August 1, 2002	4,620,000
February 1, 2003	4,795,000
August 1, 2003	4,980,000
February 1, 2004	5,175,000
August 1, 2004	5,375,000
February 1, 2005	5,580,000
August 1, 2005	5,795,000
February 1, 2006	6,020,000
August 1, 2006	6,255,000
February 1, 2007	6,495,000
August 1, 2007	6,745,000
February 1, 2008	7,010,000
August 1, 2008	7,280,000
February 1, 2009	7,560,000
August 1, 2009	7,850,000
February 1, 2010	8,155,000
August 1, 2010	8,470,000
February 1, 2011	8,800,000
August 1, 2011	9,140,000
February 1, 2012	9,490,000
August 1, 2012	9,865,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 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	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80

More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services under Parts A (3) and B (3) of the Project

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works 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 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Pakistan 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. Contracts, estimated each to cost the equivalent of not more than \$500,000, for (a) the supply of specialized field services such as well logging, testing and stimulation and of specialized equipment, materials and spare parts, may be awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Items, or groups of items estimated to cost less than the equivalent of \$250,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least two different countries eligible under the Guidelines, 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 \$1,000,000 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 subject to the procurement arrangements referred to in paragraph 1 above and 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 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants under Part B (3) of the Project

In order to assist MPNR in the carrying out of Part B (3) of the Project, the Borrower shall cause MPNR to employ 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.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means: (i) in respect of the OGDC Special Account an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the OGDC Special Account; (ii) in respect of the SNGPL Special Account, an amount equivalent to \$3,000,000 to be withdrawn from the Loan Account and deposited into the SNGPL Special Account; and (iii) in respect of the MPNR Special Account, an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the MPNR Special Account, all pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that any Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the relevant Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the relevant Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Bank requests for deposits into the Special Accounts at such inter-

vals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the relevant Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Accounts, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

- (b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocations.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

- 6. (a) If the Bank shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the relevant Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

- (b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

- (c) The Borrower may, upon notice to the Bank, refund to the

Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

