

CONFORMED COPY

LOAN NUMBER 3107 PAK

Program Agreement

(Second Energy Sector Loan)

among

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
and

WATER AND POWER DEVELOPMENT AUTHORITY OF PAKISTAN
and
KARACHI ELECTRICITY SUPPLY CORPORATION
and
OIL AND GAS DEVELOPMENT CORPORATION
and
SUI SOUTHERN GAS CORPORATION
and
SUI NORTHERN GAS PIPELINES LIMITED
and
PAKISTAN MINERAL DEVELOPMENT CORPORATION

Dated December 8, 1989

LOAN NUMBER 3107 PAK

PROGRAM AGREEMENT

AGREEMENT, dated December 8, 1989, among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and WATER AND POWER DEVELOPMENT AUTHORITY OF PAKISTAN, KARACHI ELECTRICITY SUPPLY CORPORATION, OIL AND GAS DEVELOPMENT CORPORATION, SOUTHERN GAS CORPORATION, SUI NORTHERN GAS PIPELINES LIMITED and PAKISTAN MINERAL DEVELOPMENT CORPORATION (hereinafter collectively called the Energy Sector Entities).

WHEREAS (A) by the Loan Agreement of even date herewith between the Islamic Republic of Pakistan (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to two hundred fifty million dollars (\$250,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Energy Sector Entities agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by subsidiary loan agreements to be entered into between the Borrower and the Energy Sector Entities, a portion of the proceeds of the loan provided for under the Loan Agreement will be made available to the Energy Sector Entities on the terms and conditions set forth in

said Subsidiary Loan Agreements; and

WHEREAS the Energy Sector Entities, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Investment Program

Section 2.01. (a) The Energy Sector Entities declare their commitment to the objectives of the Investment Program as set forth in the letter referred to in Recital B of the Preamble to the Loan Agreement, and, to this end, shall carry out the Investment Program with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and energy practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Investment Program.

(b) The Energy Sector Entities shall, for the purposes of the Investment Program, open and maintain in dollars special accounts in the National Bank of Pakistan on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, such Special Accounts shall be made in accordance with the provisions of Schedule 5 to the Loan Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Investment Program and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to the Loan Agreement.

Section 2.03. The Energy Sector Entities shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance, respectively) in respect of the Program Agreement and the Investment Program.

Section 2.04. The Energy Sector Entities shall duly perform all their obligations under the Subsidiary Loan Agreements. Except as the Bank shall otherwise agree, the Energy Sector Entities shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreements or any provisions thereof.

Section 2.05. (a) The Energy Sector Entities shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Investment Program, the performance of their obligations under this Agreement and under the Subsidiary Loan Agreements, and other matters relating to the purposes of the Loan.

(b) The Energy Sector Entities shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Investment Program, the accomplishment of the purposes of Loan, or the performance by the Energy Sector Entities of their obligations under this Agreement and under the Subsidiary Loan Agreements.

ARTICLE III

Management and Operations of the Energy Sector Entities

Section 3.01. The Energy Sector Entities shall carry on their operations and conduct their affairs in accordance with sound administrative, financial and energy practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. The Energy Sector Entities shall at all times operate and maintain their plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and energy practices.

Section 3.03. The Energy Sector Entities shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Energy Sector Entities shall maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations and financial condition in respect of the parts of the Investment Program for which they are respectively responsible.

(b) The Energy Sector Entities shall:

- (i) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and those for their 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: (A) certified copies of their financial statements for such year as so audited; and (B) the reports of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall

otherwise agree, WAPDA shall produce, for each of its fiscal years beginning its fiscal year ending on June 30, 1989, funds from internal sources equivalent to not less than 40% of the annual average of WAPDA's capital expenditures incurred, or expected to be incurred, for that fiscal year, the previous fiscal year and the next following fiscal year.

(b) Before April 15 in each of its fiscal years, WAPDA shall, on the basis of forecasts prepared by WAPDA and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that WAPDA would not meet the requirements set forth in paragraph (a) for WAPDA's fiscal years covered by such review, WAPDA shall promptly take all necessary measures (including, without limitation, adjustments of the structure and/or levels of its electricity tariff) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" shall mean the difference between:

- (A) the sum of gross revenues from all sources related to electricity operations, consumer deposits, cash contributions from consumers in aid of construction, and net non-operating income and any reduction in working capital other than cash; and
- (B) the sum of all expenses of operation, maintenance and administration (excluding depreciation and other non-cash operating charges), interest and other charges on debt (including interest and other charges on debt charged to construction irrespective of whether they constitute cash or non-cash expenses), repayment of loans (including sinking fund payments, if any), all taxes or payments in lieu of taxes, all cash dividends and other cash distribution of surplus, increase in working capital other than cash and any other cash outflows other than capital expenditures for electricity operations.

(ii) The term "net non-operating income" means the difference between:

- (1) revenues from all sources other than those related to operations; and
- (2) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (1) above.

(iii) The term "capital expenditures" shall include all investments related to WAPDA's electric power activities. Interest and other charges to construction shall be excluded.

Section 4.03. (a) Except as the Bank shall otherwise agree, WAPDA shall not incur any debt unless a reasonable forecast of the revenues and expenditures of WAPDA shows that the estimated net revenues of WAPDA for

each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of WAPDA in such year on all debt of WAPDA including the debt to be incurred.

- (b) For the purposes of this Section:
 - (i) The term "debt" means any indebtedness of WAPDA maturing by its terms more than one year after the date on which it is originally incurred.
 - (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
 - (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
 - (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
 - (vi) Whenever for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rates on the basis of a rate of exchange acceptable to the Bank.
 - (vii) The term "reasonable forecast" means a forecast prepared by WAPDA not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and WAPDA accept as reasonable and as to which the Bank has notified WAPDA of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future

to have, a material adverse effect on the financial condition or future operating results of WAPDA.

Section 4.04. (a) Except as the Bank shall otherwise agree, OGDC shall, effective July 1, 1990, begin to comply with financial performance criteria, satisfactory to the Borrower and the Bank, such as would, inter alia, enable OGDC to generate funds from internal sources sufficient to cover a reasonable proportion of OGDC's capital expenditures incurred, or expected to be incurred, for each fiscal year.

(b) Before April 15 in each of its fiscal years, OGDC shall, on the basis of forecasts prepared by OGDC and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that OGDC would not meet the requirements set forth in paragraph (a) of this Section for OGDC's fiscal year covered by such review, OGDC shall promptly take all necessary measures (including, without limitation, adjustments of the structure and/or levels of its gas prices) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" shall mean the difference between:

- (A) the sum of gross revenues from all sources related to oil and gas sales and net non-operating income and any reduction in working capital other than cash; and
- (B) the sum of all expenses of operation, maintenance and administration (excluding depreciation and other non-cash operating charges), interest and other charges on debt (including interest and other charges on debt charged to construction irrespective of whether they constitute cash or non-cash expenses), repayment of loans (including sinking fund payments, if any), all taxes or payments in lieu of taxes, all cash dividends and other cash distribution of surplus, increase in working capital other than cash, unsuccessful drilling expenditures and any other cash outflows other than capital expenditures for oil and gas development.

(ii) The term "net non-operating income" means the difference between:

- (1) revenues from all sources other than those related to operations; and
- (2) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (1) above.

(iii) The term "capital expenditures" shall include all investments related to OGDC's oil and gas exploration and development operations. Interest and other charges to construction shall be excluded.

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the Energy Sector Entities thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Energy Sector Entities thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For WAPDA:

Water and Power Development
Authority
WAPDA House
Lahore, Pakistan

Cable address:

WAPDA

Telex:

44869 WAPDA

PK

Lahore, Pakistan

For KESC:

Karachi Electricity Supply
Corporation, Ltd.
P.O. Box 7197

Karachi-3, Pakistan

Telex:

25601

For OGDC:

Oil and Gas Development
Corporation
M-14 Markaz F-8
Islamabad, Pakistan

Cable Address:

Telex:

OGDC PK OILGASCORP
Islamabad, Pakistan

5692

For SSGC:

Sui Southern Gas Corporation
State Life Building No. 3
Dr. Ziauddin Ahmed Road
Karachi, Pakistan

Telex:

2672

For SNGPL:

Sui Northern Gas Pipelines
Limited
P.O. Box 56
Avari Plaza
87, Sharhah-e-Quaid-e-Azam
Lahore, Pakistan

Cable address:

Telex:

PK SUI NORTH
Lahore, Pakistan

44677 SNGP

For PMDC:

Pakistan Mineral Development
Corporation
PIDC House
Dr. Ziauddin Ahmed Road
Karachi, Pakistan

Cable address:

Telex:

MINEDEVCOR
Islamabad, Pakistan

24385

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Energy Sector Entities, or by the Energy Sector Entities on behalf of the Borrower under the Loan Agreement, may be taken or executed by their Chief Executive Officers or such other person or persons as their Chief Executive Officers shall designate in writing, and their Chief Executive Officers shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original,

and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ E. Lari
Acting Regional Vice President
Europe, Middle East and North Africa

WATER AND POWER DEVELOPMENT AUTHORITY
OF PAKISTAN

By /s/ M. Afzal
Authorized Representative

KARACHI ELECTRICITY SUPPLY CORPORATION

By /s/ M. Afzal
Authorized Representative

OIL AND GAS DEVELOPMENT CORPORATION

By /s/ M. Afzal
Authorized Representative

SUI SOUTHERN GAS CORPORATION

By /s/ M. Afzal
Authorized Representative

SUI NORTHERN GAS PIPELINES LIMITED

By /s/ M. Afzal
Authorized Representative

PAKISTAN MINERAL DEVELOPMENT CORPORATION

By /s/ M. Afzal
Authorized Representative

