

CONFORMED COPY

LOAN NUMBER 3252 PAK

(Corporate Restructuring and System Expansion Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SUI NORTHERN GAS PIPELINES LIMITED

Dated October 22, 1990

LOAN NUMBER 3252 PAK
LOAN AGREEMENT

AGREEMENT, dated October 22, 1990, between
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(the Bank) and SUI NORTHERN GAS PIPELINES LIMITED (the
Borrower).

WHEREAS (A) The Islamic Republic of Pakistan (the
Guarantor) and the Borrower, having been satisfied as to
the feasibility and priority of the Project described in
Schedule 2 to this Agreement, have requested the Bank to
assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of
even date herewith between the Guarantor and the Bank,
the Guarantor has agreed to guarantee the obligations of
the Borrower in respect of the Loan and to undertake such
other obligations as set forth in the Guarantee
Agreement;

(C) the Borrower intends to contract from the Habib Bank Limited, the National Bank of Pakistan, the Muslim Commercial Bank, the United Bank Limited, the Allied Bank Limited and the National Development Finance Corporation of Pakistan (the Commercial Banks) loans (the Commercial Banks Loans) in an amount totalling one billion five hundred million Rupees (Rs 1,500,000,000) to assist in financing the Project on the terms and conditions set forth in agreements to be entered into between the Borrower and the Commercial Banks (the Commercial Banks Loan Agreements); 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;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(b) "Rs" and "Rupees" mean the currency of the Guarantor;

(c) "MCF" means 1,000 cubic feet of gas;

(d) "MMCFD" means 1,000,000 cubic feet of gas per day;

(e) "BHP" means brake horsepower;

(f) "fiscal year" means the Borrower's fiscal year commencing on July 1 and ending on June 30 of each year;

(g) "Gas Development Surcharge" means the gas surcharge which is collected for and on behalf of the Guarantor by the Borrower pursuant to the Natural Gas Development Surcharge Ordinance, 1967 (1 of 1976), Section 3, Clause (1) and Government Notification Number NG-10 (62)/74, dated June 8, 1974; and

(h) "Prescribed Prices" means the prices of gas charged to consumers by the Borrower, net of the applicable Gas Development Surcharge, as such prices are fixed by the Guarantor, from time to time, under the Natural Gas (Development Surcharge) Ordinance, 1967 and the Natural Gas Rules, 1960.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred thirty million dollars (\$130,000,000), 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 a special account in a commercial bank in the Islamic Republic of Pakistan on terms and conditions satisfactory to the Bank. 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 December 31, 1996, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 ($\frac{3}{4}$ 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 ($\frac{1}{2}$ 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 and the Guarantor 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 March 1 and September 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, commercial, industrial and engineering practices, and in accordance with health, safety and environmental standards acceptable to the Bank, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. The Borrower shall, not later than June 30, 1991, establish criteria, satisfactory to the Bank and the Guarantor, for providing, during fiscal

years 1991 through 1996, gas to towns in the territory of the Guarantor which have not yet been supplied.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for 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.

Section 3.04. For purposes of Section 9.09 of the General Conditions, the Borrower shall take all the necessary action to commence, not later than December 31, 1990, the process of acquisition of the land required for the construction of transmission pipelines under Part B (2) and (3) of the Project.

Section 3.05. The Borrower shall, not later than June 30, 1991, or such other date as shall be agreed with the Bank, conclude contractual arrangements, under terms and conditions satisfactory to the Bank, with a private sector gas utility acceptable to the Bank, for the purpose of providing technical assistance and training to the staff of the Borrower in connection with Part C (4) of the Project.

Section 3.06. The Borrower shall appoint a financial adviser with qualifications, experience and terms of reference satisfactory to the Bank to assist the Borrower in the management and implementation of the measures necessary to enable the Borrower to raise the resources required to carry out the Project through equity issues and loans.

Section 3.07. Except as the Bank shall otherwise agree, the Borrower shall increase its share capital by issuing 219 million new equity shares for subscription by the general public and, subject to Section 3.02 of the Guarantee Agreement, by the Guarantor, as follows: (i) not later than June 30, 1991, 57.5 million such shares; (ii) not later than June 30, 1992, 37.5 million such shares; (iii) not later than June 30, 1993, 50 million such shares; (iv) not later than June 30, 1994, 57 million such shares; and (v) not later than June 30, 1995, 17 million such shares.

Section 3.08. The Borrower shall: (i) not later than June 30, 1991, undertake, under terms of reference satisfactory to the Bank, a study to establish a new formula for the setting of the Borrower's Prescribed Prices and performance criteria referred to in Part A (3) of the Project; (ii) not later than June 30, 1992, furnish to the Bank and the Guarantor the findings and recommendations of such study for review and comment; and (iii) not later than July 1, 1993, taking into account the Bank's comments, implement the formula established by the Guarantor pursuant to said findings and recommendations referred to in Section 3.05 of the Guarantee Agreement.

Section 3.09. The Borrower shall: (i) not later than June 30, 1992, complete and furnish to the Bank for its review the findings, recommendations of the study referred to under Part C (2) of the Project, together with a proposed plan for their implementation; and (ii) thereafter, carry out such plan in accordance with a time schedule which shall have been approved by the Borrower and the Bank.

Section 3.10. Except as the Bank shall otherwise agree, the Borrower shall, not later than March 31, 1992, reconstitute its Board of Directors so that it reflects the then current levels of shareholdings in the Borrower.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, commercial, industrial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, 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 administrative, engineering and financial practices.

Section 4.03. The Borrower 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.

Section 4.04. (a) The Borrower shall at all times take all such action within its powers to maintain its corporate existence and right to carry on its operations, and take all steps necessary to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business and for the execution of the Project.

(b) Except in the normal course of its business, the Borrower shall not sell, lease, transfer or otherwise dispose of any of its properties or assets which shall be required for the efficient operation of its business and undertaking so as to, in the opinion of the Bank, affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 4.05. In order to enhance the capabilities of the Borrower's Corporate Planning Department, the Borrower shall, not later than March 31, 1991, or such other date as shall be agreed with the Bank, appoint to the staff of such Department an economist, a financial analyst and a system planner, all with appropriate qualifications and experience.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related

statements) and the records and accounts for the Special Account 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 its financial statements for such year as so audited; (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, and (C) a certificate from said auditors that the Borrower has complied with Sections 5.02 through 5.07 of this Agreement; 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.

(c) 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, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains 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.

Section 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall earn, for each of its fiscal years after its fiscal year ending on June 30, 1990, an annual return of not less than 17.5% of the average current net value of the Borrower's fixed assets in operation.

(b) Before December 31 in each of its fiscal years, the Borrower shall, on the basis of the accounts prepared by the Borrower for the previous fiscal year and a

forecast prepared by the Borrower and satisfactory to the Bank for the current fiscal year, review whether it would meet the requirements set forth in paragraph (a) in respect of the previous fiscal year and the current fiscal year and shall furnish to the Bank the results of such review upon its completion.

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

(d) For purposes of this Section:

- (i) The annual return shall be calculated by dividing the Borrower's net operating income for the fiscal year in question by one half of the sum of the current net value of the Borrower's fixed assets in operation at the beginning and at the end of that fiscal year.
- (ii) The term "net operating income" means total operating revenues less total operating expenses.
- (iii) The term "total operating revenues" means revenues from all sources related to operations, but excluding interest, dividends and other non-operating income.
- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, compulsory contributions to employee funds, taxes and payments in lieu of taxes such as development surcharges or other levies on gas revenues, and provision for depreciation on a straight-line basis at a rate of not less than 6% per annum of the average current gross value of the Borrower's fixed assets in operation, or other basis acceptable to the Bank, but excluding corporate income tax, interest and other charges on debt.
- (v) The average current gross value of the Borrower's fixed assets in operation shall be calculated as one-half of the sum of the gross value of the Borrower's fixed assets in operation at the beginning and at the end of the fiscal year, as valued at their historical cost.
- (vi) The term "current net value of the Borrower's fixed assets in operation" means the gross value of the Borrower's fixed assets in operation less the amount of accumulated depreciation, as valued at their historical cost.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall produce for each of its fiscal

years after its fiscal year ending on June 30, 1990 total revenues equivalent to not less than the sum of its (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciation.

(b) Before December 31 in each of its fiscal years, the Borrower shall, on the basis of the accounts prepared by the Borrower for the previous fiscal year and a forecast prepared by the Borrower and satisfactory to the Bank for the current fiscal year, review whether it would meet the requirements set forth in paragraph (a) in respect of the previous fiscal year and the current fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all measures necessary on its part (including, without limitation, adjustments of the structure or levels of its prices for the supply of gas) in order to meet such requirement.

(d) For purposes of this Section:

(i) The term "total revenues" means the sum of total operating revenues and net non-operating income.

(ii) The term "total operating revenues" means revenues from all sources related to operations, but excluding interest, dividends and other non-operating income.

(iii) 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 current and deferred income and other taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, compulsory contributions to employee funds, current and deferred income and other taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 6% per annum of the average current gross value of the Borrower's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(v) The average current gross value of the Borrower's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Borrower's

fixed assets in operation at the beginning and at the end of the fiscal year, as valued at their historical cost.

- (vi) 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.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, 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 rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 70 to 30.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower 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 "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, 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 rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.05. (a) Except as the Bank shall otherwise agree, the Borrower shall not declare any dividend or make any other distribution with respect to its share

capital, unless, after such dividend has been paid or other distribution has been made, the current assets of the Borrower would equal or exceed the current liabilities of the Borrower.

(b) For the purposes of this Section:

- (i) The term "current assets" means cash, accounts receivable and readily marketable securities, but shall not include stocks and spares.
- (ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (iii) 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.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, 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 rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.06. The Borrower shall: (i) prepare and furnish to the Bank for review and comment, not later than June 30, 1991, a five-year corporate investment and financing plan; and (ii) annually revise such plan and furnish it to the Bank for review and comment.

Section 5.07. The Borrower shall: (i) not later than January 31, 1991, appoint underwriters, or a consortium thereof, satisfactory to the Bank, on a fully-committed basis, to market the new equity shares referred to in Section 3.07; and (ii) not later than December 31, 1990 provide to the Bank evidence, satisfactory to the Bank, that it has obtained all necessary consents and clearances for the marketing of such new equity shares.

Section 5.08. Section 5.05 (a)(i) of the Loan Agreement Fifth Sui Northern Gas Project - Loan No. 2324 PAK dated July 21, 1983 between the Bank and the Borrower is hereby amended to read as set forth in Section 5.02 of this Agreement.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are

specified namely, that:

- (a) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of the Commercial Banks Loans shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the loan agreement providing therefor; or
 - (B) the Commercial Banks Loans shall have become due and payable prior to the agreed maturity thereof;
- (ii) subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) The Articles of Association of the Borrower shall have been amended, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

- (a) that the event specified in paragraph (a) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (ii) of that Section; and
- (b) the event specified in paragraph (b) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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, namely, that:

- (a) the Borrower shall have appointed the financial advisor referred to in Section 3.06 of this Agreement pursuant to the provisions thereof;
- (b) the PC-1 document for the Project has been approved by the Executive Committee of the National

Economic Council of the Guarantor and the pro forma Environmental Impact Assessment of the Project has been approved by the Pakistan Environmental Protection Agency; and

(c) all conditions precedent to the effectiveness of the Commercial Banks Loan Agreements have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 7.02. 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 VIII

Representative of the Borrower; Addresses

Section 8.01. The Managing Director of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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)

For the Borrower:

Sui Northern Gas Pipelines Limited
Gas House
21 Kashmir Road
Lahore, Pakistan

Cable address:	Telex:
Sui North Lahore	445-677 SNGP PK

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/ K. Dervis

Acting Regional Vice President
Europe, Middle East and North Africa

SUI NORTHERN GAS PIPELINES LIMITED

By /s/ Nasim Qureshi
Authorized Representative

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) Materials and equipment	120,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(2) Engineering and consulting expenditures and services local expenditures	2,000,000	100% of foreign 80% of
(3) Technical assistance and training	2,000,000	100%
(4) Unallocated	6,000,000	
TOTAL	130,000,000 =====	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not

exceeding the equivalent of \$12,000,000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after October 1, 1989.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in: (a) restructuring of the ownership of the Borrower by the Guarantor; (b) expanding the infrastructure for the purification, transmission and distribution of gas to meet demand at least cost; (c) promoting the substitution of gas for higher value petroleum imports in the northern part of the country; (d) rationalizing the supply and consumption of gas through pricing and demand management; and (e) strengthening the Borrower's capabilities in long-term planning, inventory control, operation and maintenance.

The Project consists of the following parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Corporate Restructuring

(1) Restructuring of the ownership of the Borrower by reducing the Guarantor's ultimate direct and indirect shareholdings in the Borrower to a maximum of 40% and by increasing Borrower's share capital.

(2) Restructuring of the Borrower's management organization.

(3) Establishing a new basis for setting of the Borrower's Prescribed Prices and financial performance criteria examining, inter alia, the possibility of capping the Borrower's prices for the purpose of improving the efficiency and competitiveness of the Borrower and enhancing its ability to raise equity capital from capital markets.

Part B: Infrastructure Development

(1) Installation of gas a purification plant at Sui of 120 MMCFD capacity.

(2) Expansion of the Borrower's transmission system capacity by 300 MMCFD, including construction of approximately 215 miles of 30 inch diameter pipeline between Sui and Multan, and the installation of six 4000 BHP compressor units.

(3) Expansion of the Borrower's distribution network to supply gas to the power station at Kot Addu and to two fertilizer plants, to be constructed between Sahiwal and Lahore, and to connect, during the course of fiscal years 1993 through 1996, approximately 330,000 domestic, 6,000 commercial and 400 industrial new consumers.

(4) Provision of equipment to enhance the Borrower's construction capabilities.

(5) Installation of a linepipe coating plant to improve the coating process and operational safety during

construction.

(6) Installation of a telecommunication system to monitor the operations of the transmission and distribution network.

Part C: Technical Assistance, Studies and Training

(1) Provision of financial advisory services to the Borrower.

(2) Carrying out of a study to formulate a plan for further development of the Borrower's financial management information systems and data processing, including definition of its computer hardware and software needs and a review of the Borrower's billing cycle.

(3) Training of the Borrower's staff in the area of internal auditing of computerized accounting systems.

(4) Provision of technical assistance to and training of the Borrower's staff in the areas of long-term planning, pipeline system operations and maintenance, inventory control and safety.

(5) Carrying out of a study to upgrade the regulatory capabilities of the Guarantor's Directorate General of Gas.

* * * *

The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)
March 1, 1996	2,365,000
September 1, 1996	2,460,000
March 1, 1997	2,555,000
September 1, 1997	2,655,000
March 1, 1998	2,755,000
September 1, 1998	2,860,000
March 1, 1999	2,975,000
September 1, 1999	3,090,000
March 1, 2000	3,210,000
September 1, 2000	3,330,000
March 1, 2001	3,460,000
September 1, 2001	3,595,000
March 1, 2002	3,735,000
September 1, 2002	3,880,000
March 1, 2003	4,030,000
September 1, 2003	4,185,000
March 1, 2004	4,350,000
September 1, 2004	4,515,000
March 1, 2005	4,690,000
September 1, 2005	4,875,000
March 1, 2006	5,065,000
September 1, 2006	5,260,000
March 1, 2007	5,465,000
September 1, 2007	5,675,000
March 1, 2008	5,895,000

September 1, 2008	6,120,000
March 1, 2009	6,360,000
September 1, 2009	6,605,000
March 1, 2010	6,860,000
September 1, 2010	7,125,000

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods 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 Islamic Republic of 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. Equipment which the Bank shall agree to be proprietary may be procured through direct negotiations with suppliers under procedures satisfactory to the Bank, provided, however, that items so procured shall not exceed \$8,500,000 equivalent in the aggregate.

2. Equipment which the Bank agrees needs to be compatible with installed equipment and spare parts, estimated to cost in the aggregate not more than \$4,000,000 equivalent, may be procured under contracts awarded through limited international bidding procedures on the basis of bids invited from at least four 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).

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 equivalent 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 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 this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank:

(a) by March 31, 1991, to: (i) prepare the detailed design and engineering of the high-pressure pipelines

across the Suttlej and Ravi rivers; and (ii) supervise construction of these pipelines;

(b) by March 31, 1991, to: (i) formulate a strategy for further development of Borrower's financial management information systems and data processing, including definition of its computer hardware and software requirements; (ii) review Borrower's billing cycle; and (iii) train Borrower's staff in computer auditing; and

(c) by June 30, 1991, to establish the new basis for setting of the Borrower's Prescribed Prices and performance criteria referred to in Part A (3) of the Project.

The consultants referred to above 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 Account

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 an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account 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 the 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 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 Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special

Account at such intervals 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 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 Account, 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, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Project, shall equal the equivalent of twice the amount of the Authorized Allocation. 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 the 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 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.

