

CONFORMED COPY

LOAN NUMBER 2842 PAK

(Refinery Energy Conservation and Modernization Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE PETROLEUM REFINING AND PETROCHEMICAL
CORPORATION LTD.

Dated September 10, 1987

LOAN NUMBER 2842 PAK

LOAN AGREEMENT

AGREEMENT, dated September 10, 1987, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE PETROLEUM REFINING AND PETROCHEMICAL CORPORATION LTD. (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 Project will be largely carried out by the National Refinery Limited (NRL) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to NRL part of the proceeds of the Loan as provided in this Agreement; and

(D) the Borrower intends to obtain commercial loans/suppliers' credits and other funds in an aggregate amount

equivalent to about \$2,000,000 to assist in financing part of the Project on the terms and conditions set forth in the agreements to be entered into between the Borrower and commercial and other sources; 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 and in the Preamble to this Agreement 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) "NRL" means the National Refinery Limited, a company established and operating under the Companies Ordinance of 1984;

(c) "ENAR-Petrotech" means ENAR Petrotech Services Ltd., a company established and operating under the Companies Ordinance of 1984;

(d) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and NRL pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(e) "ECNEC" means the Executive Committee of the National Economic Council of the Guarantor;

(f) "PPIS" means the Petroleum Products Supply Options and Infrastructure Study commissioned under the Energy Sector Loan (Loan No. 2552-PAK);

(g) "Rs" or "rupees" means the currency of the Guarantor; and

(h) "FY" or "fiscal year" means the Borrower's or NRL's fiscal year covering the period July 1 through June 30.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to twenty-one million dollars (\$21,000,000).

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, cause NRL to open and maintain in dollars, a special account in the National Bank 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 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1993 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 (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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 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, shall carry out Part C.1 (b) of the Project and shall cause NRL to carry out the other parts of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out, and shall cause NRL to carry out, the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend \$19,200,000 equivalent out of the proceeds of the Loan to NRL under a subsidiary loan agreement to be entered into between the Borrower and NRL, under terms and

conditions which shall have been approved by the Bank and which shall include an interest rate per annum equal to the interest rate applicable to the Loan at any given time, a fee equal to the guarantee fee payable by the Borrower to the Guarantor, a repayment period of fifteen years including a grace period of five years, and a provision that NRL shall bear the foreign exchange risk.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. 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 3.03. 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 the Project (other than Part C.1 (b) thereof) shall be carried out by NRL pursuant to the Subsidiary Loan Agreement.

ARTICLE IV

Management and Operations of the Borrower and NRL

Section 4.01. The Borrower shall carry on its operations and conduct its affairs, and shall cause NRL to carry on its operations and conduct its affairs, all in accordance with sound administrative, financial 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 plant, machinery, equipment and other property, and shall cause NRL at all times to operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make and cause NRL to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and refinery practices.

Section 4.03. The Borrower shall, and shall cause NRL to, 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 V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain and cause to be maintained records and accounts adequate to reflect, in accordance with sound accounting practices, its and NRL's operations and financial condition.

(b) The Borrower shall:

- (i) have its and NRL's 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 and cause to be furnished 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 and NRL's financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish and cause to be furnished 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; and
- (iv) without limitation to the foregoing, furnish and cause to be furnished to the Bank, not later than two months after the end of each semester, unaudited accounts of the nature referred to in paragraph (a) of this Section.

Section 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall ensure that NRL will not incur any debt, if after the incurrence of such debt NRL's ratio of debt to equity shall be greater than 70 to 30.

(b) For the purposes of this Section:

- (i) The term "debt" mean any indebtedness of NRL 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 NRL 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 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall cause NRL to maintain a ratio of current assets to current liabilities of not less than 1.0.

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

(c) If any such review shows that NRL would not meet the requirements set forth in paragraph (a) for NRL's fiscal year

covered by such review, the Borrower shall promptly take, and shall cause NRL promptly to take, all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (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 5.04. The Borrower shall cause NRL, by June 30, 1988, to review and discuss with the Bank, NRL's classification of short-term debt with a view to determining whether any portion of such debt should be reclassified as long-term debt.

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:

(a) NRL shall have failed to perform any of its obligations under the Subsidiary Loan Agreement.

(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 NRL will be able to perform its obligations under the Subsidiary Loan Agreement.

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

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan 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.

Section 6.02. 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 6.01 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;

(b) the event specified in paragraph (c) of Section 6.01 of this Agreement shall occur; and

(c) the event specified in paragraph (d) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

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:

(a) ECNEC shall have approved the PC-1 documents required with respect to the Project; and

(b) the Subsidiary Loan Agreement shall have been executed on behalf of the Borrower and NRL.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and NRL and is legally binding upon the Borrower and NRL in accordance with its terms.

Section 7.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Chairman 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:

INTBAFRAD
Washington, D.C.

Telex:

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

For the Borrower:

State Petroleum Refining and
Petrochemical Corporation Ltd.
P.O. Box 8913
Merewether Road
Karachi, Pakistan

Cable address:

PERAC
Karachi

Telex:

24546-PERAC 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/ W. P. Thalwitz

Regional Vice President
Europe, Middle East and North Africa

STATE PETROLEUM REFINING AND PETROCHEMICAL
CORPORATION LTD.

By /s/ C. M. Afzal

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) Equipment and materials (including installation and related services) for:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for
(a) NRL	14,500,000	

	(b) the Borrower	1,000,000	other items pro- cured locally
(2)	Consultants' services for:		100% of foreign expenditures
	(a) NRL	1,000,000	
	(b) the Borrower	500,000	
(3)	Training	500,000	100%
(4)	Unallocated	3,500,000	
	TOTAL	21,000,000	

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 \$2,000,000, may be made on account of payments made for expenditures before that date but after January 1, 1987.

SCHEDULE 2

Description of the Project

The objectives of the Project are to enable NRL to: (i) improve refinery efficiency, increase crude processing capacity, modify the output mix to better match demand, and reduce energy consumption; and (ii) strengthen refinery production optimization and control systems and train staff. The Project will also support sector-wide objectives, namely, to promote a pricing policy for refinery products which would provide incentives for efficiency improvements and economic investments, and to help formulate an optimal investment program for the refinery sector for the period FY88 through FY93.

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: NRL Refinery System Modifications

Carrying out of capacity expansion, operating efficiency, and energy conservation improvements, including the following measures:

- (i) balancing and modernization of the crude processing unit;
- (ii) installation of a captive power plant in the second lube unit (Lube Unit II);
- (iii) debottlenecking of the naphtha hydrotreater and platformer unit; and
- (iv) modification and optimization of the lube oil

refining process to make the first lube unit (Lube Unit I) more energy efficient and in line with modern technology.

Part B: Other Efficiency and Operating Improvements

Carrying out of other efficiency and operating improvements, including the provision and installation of:

- (i) a process simulator and floating decks for storage tanks for the NRL Refinery; and
- (ii) such facilities as may be agreed for PERAC's other subsidiaries.

Part C: Technical Assistance, Studies, Training and Research and Development

1. Provision of consultants' services to assist in: (a) carrying out the Project; and (b) preparing studies to establish the feasibility and advance the preparation of future projects in the petroleum products sector.

2. Provision of technical and management training for NRL staff.

3. Provision of research and development facilities for NRL.

* * * * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 15 and December 15	
beginning December 15, 1992 through June 15, 2002	1,050,000

* 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

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	0.20
More than three years but not more than six years before maturity	0.40

More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A. International Competitive Bidding

1. 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).

2. To the extent practicable: (a) contracts shall be grouped in bid packages estimated to cost the equivalent of \$200,000 or more each; and (b) contracts for identical or similar items shall be grouped together in the same bid package.

Part B. Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 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. Items or groups of items (i) which are estimated to cost less than the equivalent of \$200,000 per contract, or (ii) whose delivery periods are critical to the timely completion of the Project, or (iii) whose need for compatibility with the existing equipment would limit the availability of suppliers, up to an aggregate amount not to exceed the equivalent of \$7,500,000, may be procured under contracts 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, in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Small items, up to an aggregate amount not to exceed the equivalent of \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers 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 referred to in Parts A.1 and C of this Schedule and estimated to cost the equivalent of \$200,000 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 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 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 6 to 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 and NRL in carrying out the Project, the Borrower shall employ, and shall cause NRL 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

Implementation Program

Implementation Arrangements

1. The Project (except for Parts B (ii) and C.1 (b) thereof) shall be carried out by NRL. The Project Unit of NRL's Technical Services Department shall have overall responsibility for project coordination. ENAR-Petrotech shall act as Project Managers and shall assist NRL in the preparation of detailed engineering and design and bidding documents and in the evaluation of bids. Installation shall be carried out largely by local contractors under the supervision of NRL staff.

2. The Borrower shall be responsible for carrying out Parts B (ii) and C.1 (b) of the Project. The Borrower shall make such arrangements for this purpose as shall be satisfactory to the Bank.

Reporting Requirements

3. Within 45 days of the end of each quarter, NRL shall prepare and furnish to the Bank a progress report for the preceding quarter covering, inter alia, physical progress of each project component, updated project costs, status of procurement and disbursements (including from the Special Account), the work of consultants, and staff training aspects.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1)(a), (2) (a) 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 \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 relevant Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request by NRL for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of NRL, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as NRL shall have requested.

(b) NRL shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by NRL out of the Special Account for which NRL requests replenishment pursuant to paragraph 3 (b) of this Schedule, NRL shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) the Bank shall have determined that all further withdrawals should be made by NRL 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

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories for the parts of the Project, to which the Special Account relates, 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 such parts of the Project, shall be equal to the equivalent of twice the amount of the relevant Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for the parts of the Project to which the Special Account relates shall follow such procedures as the Bank shall specify by notice to NRL. 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, NRL shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until NRL has made such deposit or refund.

(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, NRL shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

