

No. 10098

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
PAKISTAN**

**Guarantee Agreement—*Second Sui Northern Gas Project*
(with annexed General Conditions Applicable to Loan
and Guarantee Agreements and Loan Agreement
between the Sui Northern Gas Pipelines Limited and
the Bank). Signed at Washington on 13 May 1969**

Authentic text : English.

*Registered by the International Bank for Reconstruction and Development on
15 December 1969.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
PAKISTAN**

**Contrat de garantie — *Deuxième projet relatif à la Sui
Northern Gas* (avec, en annexe, les Conditions générales applicables aux contrats d'emprunt et de garantie et le Contrat d'emprunt entre la Sui Northern Gas Pipelines Limited et la Banque). Signé à Washington le 13 mai 1969**

Texte authentique : anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 15 décembre 1969.

GUARANTEE AGREEMENT¹

AGREEMENT, dated May 13, 1969, between the ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Sui Northern Gas Pipelines Limited (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement², the Bank has agreed to make to the Borrower a loan in various currencies equivalent to eight million dollars (\$8,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the payment of the principal, interest and other charges on such loan; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated January 31, 1969,³ with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Schedule 4 to the Loan Agreement (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Guarantee Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement shall have the respective meanings therein set forth.

¹ Came into force on 29 September 1969 upon notification by the Bank to the Government of Pakistan.

² See p. 420 of this volume.

³ See p. 418 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Guarantee Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds and the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, all as set forth in the Loan Agreement and in the Bonds.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (a) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (b) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including the State Bank of Pakistan or any other institution performing the functions of a central bank.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan shall be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The

Guarantor shall promptly inform the Bank of any condition which interfere with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Guarantor or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxes upon payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Guarantee Agreement, the Loan Agreement, the Trust Deed, the Supplemental Indenture and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The Guarantor will not take or permit any of its political subdivisions or any of its agencies, or any agency of any political subdivision, to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations of the Borrower set forth in the Loan Agreement, and will take or cause to be taken all reasonable action which shall be necessary in order to enable the Borrower to perform such covenants, agreements and obligations.

Section 3.06. The Guarantor covenants that it will from time to time grant or cause to be granted to the Borrower tariffs for the sale of gas which will provide revenues sufficient for the Borrower to carry out its obligations under Section 5.12 of the Loan Agreement.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Agreement and the General Conditions, its guarantee on the Bonds to be executed and delivered by the Borrower. The Secretary to the Government of Pakistan, Ministry of Finance, and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 8.10 of the General Conditions.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 10.01 of the General Conditions :

For the Guarantor :

The Secretary to the Government of Pakistan
Economic Affairs Division
Islamabad, Pakistan

Cable address :
Economic
Islamabad

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.

Section 5.02. The Secretary to the Government of Pakistan, Economic Affairs Division, is designated for the purpose of Section 10.03 of the General Conditions.

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

ISLAMIC REPUBLIC OF PAKISTAN :

By A. R. BASHIR
Authorized Representative

International Bank for Reconstruction and Development :

By J. Burke KNAPP
Vice President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS
(*Not published herein. See United Nations, Treaty Series, vol. 691, p. 300.*)

LOAN AGREEMENT

AGREEMENT, dated May 13, 1969, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and SUI NORTHERN GAS PIPELINES LIMITED, a company duly organized and existing in Pakistan under the Companies Act, 1913 (hereinafter called the Borrower).

WHEREAS (A) By a loan agreement dated May 14, 1964¹ between the Bank and the Borrower, the Bank made a loan to the Borrower in an amount in various currencies equivalent to \$15,000,000 to extend and improve the Borrowers' then existing gas transmission system by, among other things, the construction of new high-pressure transmission lines.

(B) The Borrower wishes to expand the capacity of its presently existing gas transmission system, primarily in order to supply the gas requirements of a urea fertilizer manufacturing plant to be built at Chichoki Mallian, Pakistan.

(C) The Borrower plans to raise additional capital as follows :

- (1) By the sale to Burmah Oil Company Limited (hereinafter called BOC), or to a wholly-owned subsidiary of BOC, of 600,000 Ordinary Shares of Rs 10 each for payments in pounds sterling aggregating the equivalent of Rs 6,000,000;
- (2) By the sale to West Pakistan Industrial Development Corporation (hereinafter called WPIDC) of 600,000 Ordinary Shares of Rs 10 each for payments aggregating Rs 6,000,000; and
- (3) By the sale to Pakistani investors of 600,000 Ordinary Shares of Rs 10 each for payments to the Borrower aggregating Rs 6,000,000 pursuant to an underwriting and distribution of such shares.

(D) The Borrower plans to obtain loans from local Pakistan financial institutions aggregating approximately Rs 19,340,000 for the Project.

(E) The Loan which is the subject of this Loan Agreement is to be guaranteed as to payment of principal, interest and other charges by the Islamic Republic of Pakistan (hereinafter called the Guarantor) under the terms of a Guarantee Agreement of even date herewith² and is to be secured as provided in Section 5.04 of this Agreement.

(F) The Bank, on the basis *inter alia* of the foregoing, has agreed to make a loan to the Borrower upon the terms and conditions hereinafter set forth.

NOW THEREFORE, it is hereby agreed as follows :

¹ United Nations, *Treaty Series*, vol. 516, p. 145.

² See p. 412 of this volume.

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated January 31, 1969,¹ with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Schedule 4 to this Agreement (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Loan Agreement, 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) "First Loan Agreement" means the loan agreement dated May 14, 1964 between the Bank and the Borrower.

(b) "Trust Deed" means the trust deed dated January 17, 1967 made between the Borrower, Habib Executors and Trustees Company Limited, as trustees, and the Bank, securing the loan made pursuant to and the bonds issuable under the First Loan Agreement and shall include any deeds or instruments supplemental thereto.

(c) "Supplemental Indenture" means the deed or deeds and other instruments to be executed by the Borrower in accordance with the provisions of Section 5.04 of this Agreement in order to modify the security of the Trust Deed as in such Section provided.

(d) "Dawood Hercules" means Dawood Hercules Chemicals Limited, a company organized and existing under the Companies Act, 1913, of Pakistan.

(e) "Gas Purchase Agreement" means the agreement between the Borrower and Dawood Hercules dated November 20, 1968 providing for the supply by the Borrower of natural gas to Dawood Hercules' urea fertilizer manufacturing plant near Chichoki Mallian, Pakistan.

(f) "WAPDA Agreement" means the agreement between the Borrower and the West Pakistan Water and Power Development Authority dated September 20, 1963 for the sale of gas.

(g) "Tripartite Agreement" means the agreement dated September 24, 1964 between the Borrower, Pakistan Petroleum Limited and Sui Gas Transmission Company for the supply and purification of gas for the Borrower's transmission system, as amended by the amending agreement referred to in Section 7.01(d) of this Agreement.

(h) "BOC(PT)" means Burmah Oil Company (Pakistan Trading) Limited, a subsidiary of BOC.

¹ See p. 418 of this volume.

(i) "Services Agreement" means the agreement dated August 28, 1963 between the Borrower and BOC(PT) for the furnishing of technical services to the Borrower, as amended by the amending agreement referred to in Section 7.01(e) of this Agreement.

(j) "Underwriting Agreement" means the agreement for the underwriting and distribution of Ordinary Shares of the Borrower referred to in Section 7.01 (b) of this Agreement.

(k) "Subsidiary" means a company which is a subsidiary of the Borrower within the meaning of the Companies Act, 1913 (or any amendment thereof).

(l) "Rupees" and the sign "Rs" mean rupees in currency of the Guarantor.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to eight million dollars (\$8,000,000).

Section 2.02. (a) The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan.

(b) The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Loan Agreement and in accordance with the allocation of the proceeds of the Loan set forth in Schedule I to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Bank; provided, however, that, except as the Bank shall otherwise agree, until the Borrower shall have complied with the provisions of Section 5.04 of this Agreement, the aggregate of (i) the amount withdrawn from the Loan Account and (ii) the amount subject to special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall not exceed the equivalent of two million dollars (\$2,000,000).

Section 2.03. The Borrower shall be entitled to withdraw from the Loan Account such amounts as shall have been paid (or, if the Bank shall so agree, shall be required to meet payments to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed under this Loan Agreement.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of six and one-half per cent ($6\frac{1}{2}$ %) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan in accordance with the provisions of this Loan Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree : (i) the goods and services to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the *Guidelines for Procurement under World Bank Loans and IDA Credits*, published by the Bank in February 1968, and in accordance with such other procedures supplementary thereto as shall be agreed between the Bank and the Borrower; and (ii) contracts for the procurement of such goods and services shall be subject to the approval of the Bank.

Section 3.03. Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Article IV

BONDS

Section 4.01. The Borrower shall execute and duly deliver Bonds representing the principal amount of the Loan and of the form, tenor and purport prescribed in the Trust Deed and as provided thereby and in the General Conditions.

Section 4.02. The Borrower shall from time to time designate and notify to the Bank an authorized representative or representatives for the purposes of Section 8.10 of the General Conditions.

Section 4.03. The Borrower shall not issue any Bonds except as provided herein, in the General Conditions, in the Trust Deed or in the Bonds.

Section 4.04. The Bank and the Borrower shall be at liberty to make such arrangements as they may from time to time mutually agree as to procedure for the issue, authentication and delivery of the Bonds and such arrangements may be in addition to or in substitution for any of the provisions of this Loan Agreement or of the General Conditions.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall carry out and complete the Project with due diligence and efficiency and in conformity with sound engineering, commercial and financial practices.

(b) Except as the Bank shall otherwise agree, the Borrower shall, in carrying out the Project, employ or cause to be employed engineering consultants and contractors acceptable to, and to an extent and upon terms and conditions satisfactory to, the Bank and the Borrower.

(c) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications and construction schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

(d) The Borrower shall maintain records adequate to identify the goods and services financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; shall enable the Bank's representatives to inspect the Project, the goods and services financed out of the proceeds of the Loan, all other plants, sites, works, properties and equipment of the Borrower and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods and services financed out of the proceeds of the Loan, and the management, financial condition and operations of the Borrower.

Section 5.02. The Borrower shall have its annual financial statements (balance sheet and profit and loss statement) audited by an independent accountant or accounting firm acceptable to the Bank and shall promptly after their preparation, and not later than four months after the close of the Borrower's fiscal year, transmit to the Bank copies of such statements and a signed copy of the accountant's or accounting firm's report and certificate.

Section 5.03. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

(b) The Bank and the Borrower shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Borrower shall cause each of its subsidiaries (if any) to observe and perform the obligations of the Borrower under this Loan Agreement to the extent to which the same may be applicable thereto as though such obligations were binding upon each of such subsidiaries.

Section 5.04. (a) The Borrower shall, as soon as practicable, execute and deliver, and shall cause all other necessary parties to execute and deliver, all such deeds and other instruments, in such form as the Bank may reasonably require, to cause the security constituted by the Trust Deed to be so modified and extended that as so modified and extended it will constitute by way of security for the principal of, interest and other charges on, and premium on prepayment, if any, of the Loan, the Bonds, the loan made pursuant to and the bonds issuable under the First Loan Agreement, all of which shall rank *pari passu inter se* in respect of such security :

- (i) a first specific mortgage upon all the properties now owned or hereafter acquired by the Borrower and expressed in the Trust Deed to be the specifically mortgaged premises thereunder or intended so to be; and
- (ii) a first floating charge upon all the property and assets expressed in the Trust Deed to be charged or intended so to be by the first floating charge created thereby,

such mortgage and charge to rank in point of security prior to any other mortgage, charge, pledge, hypothecation or lien upon any of the properties or assets of the Borrower, now existing or hereafter created.

(b) The Borrower shall obtain all necessary consents for the valid execution and delivery of the Supplemental Indenture and shall duly register, or cause to be duly registered, the Supplemental Indenture, together with such other documents as may be necessary or proper in order to render the same fully effective in accordance with its terms.

(c) The Borrower shall furnish evidence, satisfactory to the Bank, that it has duly performed its obligations pursuant to the foregoing paragraphs of this Section. As part of such evidence there shall be furnished an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank showing that the requirements of paragraphs (a) and (b) of this Section have been duly complied with.

(d) The Bank and the Borrower may from time to time agree upon modifications of the foregoing requirements of this Section.

Section 5.05. (a) The Borrower undertakes that, except as the Bank shall otherwise agree, no mortgage, hypothecation, lien, pledge or charge which would rank prior to or *pari passu* with the mortgage or charge created or to be created by or pursuant to the Trust Deed or the Supplemental Indenture shall, after the date of this Agreement, be created or maintained on any of its assets as security for any debt.

(b) Except as the Bank shall otherwise agree : (i) no subsidiary shall at any time create any mortgage, charge or security on its undertaking, properties or assets (including uncalled capital) or any part thereof otherwise than in favor of the Borro-

wer; (ii) all mortgages, charges or securities created by any subsidiary in favor of the Borrower shall be retained by the Borrower and shall not be sold, transferred or otherwise disposed of by it; and (iii) the Borrower shall not sell, transfer or otherwise dispose of any shares for the time being held by it in any subsidiary so that such subsidiary shall cease to be a subsidiary of the Borrower.

Section 5.06. (a) The Borrower shall at all times take all requisite steps for the acquisition, retention and renewal by it of all such lands, interests in land and properties and all such rights, powers and privileges as may be necessary or proper for the construction of the Project, the operation of the properties included therein and of its other properties and the carrying on of its undertaking.

(b) The Borrower shall at all times maintain its corporate existence and right to carry on operations and shall, except as the Bank may otherwise agree, acquire, maintain and renew all rights, powers, privileges, licenses and franchises owned or held by it and necessary or useful in the conduct of its business.

(c) The Borrower shall operate its undertaking and conduct its affairs under the supervision of qualified and experienced management and in accordance with sound business, industrial and financial practices and shall operate, maintain, renew and repair its plants, machinery, equipment and property as required in accordance with sound engineering practices.

Section 5.07. (a) 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 sound practice.

(b) Without limiting the generality of the foregoing, the Borrower undertakes to insure the imported goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

Section 5.08. The Borrower shall duly perform its obligations under the Tripartite Agreement, the Services Agreement, the WAPDA Agreement, the Underwriting Agreement and the Gas Purchase Agreement and shall not, without the consent of the Bank, assign, amend, suspend, waive or abrogate, in whole or in part, any of such agreements.

Section 5.09. Except as the Bank shall otherwise agree, the Borrower shall not:

- (a) sell, lease, transfer, or otherwise dispose of any of its properties or assets which shall be required for the efficient carrying on of its business;
- (b) amend its Memorandum or Articles of Association; or
- (c) consent to any action taken at any meeting of bond-holders or by written instrument pursuant to the provisions of the Trust Deed which would or might change the terms of the Bonds or adversely affect the holders thereof.

Section 5.10. The Borrower shall not undertake or execute any project or development (other than the Project), or make any investment, which would result in estimated aggregate capital expenditures of the Borrower exceeding the equivalent of \$1,500,000 in any fiscal year unless the Bank has approved the method of financing such project, development or investment.

Section 5.11. (a) Except as the Bank shall otherwise agree, the Borrower shall declare dividends (i) only out of the profits of the year or any other undistributed profits accumulated after January 1, 1964, such profits being calculated for the purpose of this Section by subtracting from the net profit before taxation shown in the annual audited accounts of the Borrower an amount equal to the tax which would be payable by the Borrower if it were not entitled to the benefit of the initial and accelerated depreciation allowable to it under the Pakistan Income Tax Act, and (ii) only if, after the payment of such dividend (assuming such payment were made on the date of such declaration), consolidated current assets of the Borrower and its subsidiaries (if any) would be more than 1.5 times the consolidated current liabilities of the Borrower and its subsidiaries (if any).

(b) For purposes of this Section the following terms shall have the following meanings :

(i) The term "current assets" shall mean cash, bank deposits, receivables and readily marketable securities valued at their market price but shall not include inventories; and

(ii) The term "current liabilities" shall mean all liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year including the current portion of long-term indebtedness.

Section 5.12. (a) Except as the Guarantor, the Bank and the Borrower shall otherwise agree, the Borrower shall establish and maintain tariffs for the supply of gas which will provide revenues sufficient concurrently to :

- (i) produce an annual return on the value of the Borrower's net fixed assets in operation of not less than ten percent (10 %) for each fiscal year through July 31, 1973 and of not less than twelve percent (12 %) thereafter; and
- (ii) enable it out of internally generated funds to pay interest on and amortize loans and debts, pay current taxation and dividends and provide adequate reserves for liability for deferred taxation, maintain adequate working capital, and finance out of its own funds a reasonable part of the cost of new capital investments.

(b) For the purposes of this Section :

(i) The term "liability for deferred taxation" means the difference between the taxation payable by the Borrower in respect of a fiscal year and the taxation that would be payable in respect of such fiscal year if the Borrower were not entitled to the benefit of the initial and accelerated depreciation allowable under the Pakistan Income Tax Act.

(ii) The "annual return" shall be calculated by relating the Borrower's net operating revenues for the Borrower's fiscal year under consideration to the average of the values of the Borrower's net fixed assets in operation at the beginning and at the end of such year.

(iii) "Net operating revenues" shall be calculated by deducting the Borrower's operating expenses for the fiscal year under consideration from the Borrower's gross operating revenues for the fiscal year under consideration.

(iv) The term "operating expenses" means all operating and administrative expenses, including compulsory contributions to employee funds, adequate maintenance and straight-line depreciation computed at the rates established by the Ministry of Industries, Natural Resources and Works of the Guarantor in paragraph XV of its sanction letter dated February 7, 1963 addressed to the Chairman of WPIDC and the General Manager of BOC(PT), but excluding taxes and interest and other charges on debt.

(v) The term "value of net fixed assets in operation" means the original cost of all fixed assets in operation, adjusted from time to time to reflect the current replacement value of such assets, less accumulated depreciation thereon.

Section 5.13. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur or permit any subsidiary to incur any debt (other than the Loan and the debt referred to in Recital (D) of this Agreement) if, after the incurring of any such debt, the consolidated debt of the Borrower and all its subsidiaries would exceed the consolidated capital and surplus of the Borrower and all its subsidiaries in a ratio higher than 60:40.

(b) For the purposes of this Section :

(i) The term "debt" shall not include debt payable on demand or maturing not more than one year after its date.

(ii) Debt shall be deemed to be incurred on the date of execution and delivery of a contract or loan agreement providing for the incurring of such debt, and debt guaranteed by the Borrower or any of its subsidiaries shall be deemed to be incurred on the date of the agreement for such guarantee.

(iii) Whenever in connection with this Section it shall be necessary to value in terms of Pakistan currency 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, if such other currency is not so obtainable, at the rate of exchange that will be reasonably determined by the Bank.

(iv) The term "consolidated debt" shall mean the total amount of debt of the Borrower and all its subsidiaries excluding debt owed by the Borrower to any subsidiary or by any subsidiary to the Borrower or to any other subsidiary.

(v) The term "consolidated capital and surplus" shall mean the total capital and surplus, determined in accordance with sound accounting practices, of the Borrower and all its subsidiaries after excluding such items of capital and surplus as shall represent equity interest by the Borrower or any subsidiary in the Borrower or any subsidiary.

Section 5.14. The Borrower shall pay or cause to be paid all taxes and fees, if any, imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration of the Loan Agreement, the Guarantee Agreement, the Trust Deed, the Supplemental Indenture or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bonds to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.15. The Borrower shall pay or cause to be paid all taxes and fees, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of the Loan Agreement, the Guarantee Agreement, the Trust Deed, the Supplemental Indenture or the Bonds.

Article VI

REMEDIES OF THE BANK

Section 6.01. If any event specified in Section 7.01 of the General Conditions or in Section 6.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower and the Guarantor declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, together with the interest and other charges thereon, and upon any such declaration such principal, interest and charges shall become due and payable immediately, anything to the contrary in this Loan Agreement or in the Bonds notwithstanding.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified :

(a) Any other loan or credit to the Borrower shall have become due and payable pursuant to the terms thereof prior to its stated maturity.

(b) The security constituted by the Trust Deed shall have become enforceable.

(c) A default shall have occurred in the performance of any obligation of BOC or of WPIDC under the arrangements referred to in Section 7.01 (a) of this Agreement, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.

(d) The right of the Borrower to disbursements under any of the loans referred to in Recital (D) of this Agreement shall have been suspended or cancelled without the prior agreement of the Bank, and such event shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.

(e) A default shall have occurred in the performance of any obligation of any party to the Underwriting Agreement, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.

(f) A default shall have occurred in the performance of any obligation of BOC(PT) under the Services Agreement, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.

(g) The Tripartite Agreement, the Services Agreement, the Underwriting Agreement, the WAPDA Agreement or the Gas Purchase Agreement shall have been in any material respect terminated, amended, suspended, waived or assigned without the prior approval of the Bank, and such event shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.

Section 6.03. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified :

(a) Any representation or warranty made by the Borrower in connection with the execution of this Loan Agreement, the Bonds, the Trust Deed, or the Supplemental Indenture, or in connection with any application for withdrawal from the Loan Account, shall have been incorrect in any material respect.

(b) The Bank shall have suspended or cancelled the right of Dawood Hercules to make withdrawals from the loan account under the loan agreement between the Bank and Dawood Hercules dated July 10, 1968, unless the Borrower establishes to the satisfaction of the Bank that the demand for gas from the Borrower's transmission system upon completion of the Project will be adequate to justify continuing to carry out the Project.

Section 6.04. The Bank and the Borrower agree that for the purposes of the First Loan Agreement and this Loan Agreement respectively, an event under Section 6.02(b) or Section 7.01(d) of the General Conditions shall be deemed to be an event under Section 5.02(c) of the Loan Regulations No. 4 applicable to the First Loan Agreement, and an event under Section 5.02(c) of the Loan Regulations No. 4 applicable to the First Loan Agreement shall be deemed to be an event under Section 6.02(b) and Section 7.01(d) of the General Conditions.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 11.01(c) of the General Conditions :

(a) Arrangements satisfactory to the Bank shall have been made for the sale by the Borrower to BOC (or its wholly-owned subsidiary) and WPIDC of the Ordinary Shares of the Borrower referred to in Recital (C) (1) and (2) of this Agreement.

(b) The Borrower shall have entered into an agreement satisfactory to the Bank with one or more financial institutions acceptable to the Bank for the underwriting and distribution of the Ordinary Shares of the Borrower referred to in Recital (C) (3) of this Agreement.

(c) Arrangements satisfactory to the Bank shall have been made for the additional financing referred to in Recital (D) of this Agreement.

(d) The Borrower shall have entered into an agreement satisfactory to the Bank with Pakistan Petroleum Limited and Sui Gas Transmission Company amending the Agreement between them dated September 24, 1964 and providing for the supply and purification of additional gas for the Borrower's transmission system.

(e) The Borrower shall have entered into an agreement satisfactory to the Bank with BOC(PT) amending the agreement between them dated August 28, 1963 and providing for the furnishing to the Borrower of additional technical services required for the construction and operation of the Project.

(f) The Borrower shall have, to the satisfaction of the Bank, validly acquired all such lands and properties and all such rights of way, easements, licenses, consents, franchises, or other rights or privileges as may be necessary or requisite to enable it to construct the Project and operate its business, or has made (to the like satisfaction) effective arrangements for the acquisition thereof; and the Borrower has supplied to the Bank a certificate, satisfactory to the Bank, setting forth particulars of the foregoing.

(g) All necessary acts, consents and approvals to be performed or given by the Guarantor, its political subdivisions or agencies or by any agency of any political subdivision, or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower to perform all of the covenants, agreements and obligations set forth or referred to in this Loan Agreement, together with the necessary powers and rights in connection therewith, shall have been performed or given.

Section 7.02. The following are specified as additional matters, within the meaning of Section 11.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank on behalf of the Borrower :

(a) That the Borrower has full power and authority to construct the Project and to operate its business and has all necessary rights and powers in connection therewith; that all acts, franchises, concessions, consents and approvals necessary therefor have been duly and validly performed or given; and that, with such

- exceptions as the Bank may have approved, all easements, rights and privileges necessary therefor have been duly obtained;
- (b) That the following agreements are valid and binding obligations of the respective parties thereto in accordance with their terms :
- (1) The Tripartite Agreement;
 - (2) The Services Agreement;
 - (3) The Underwriting Agreement; and
 - (4) The Gas Purchase Agreement;
- (c) That all acts, consents, and approvals referred to in paragraph (g) of Section 7.01 together with all necessary powers and rights in connection therewith, have been duly and validly performed or given and that no other such acts, consents or approvals are required in order to authorize the carrying out of the Project and to enable the Borrower to perform all the covenants, agreements and Borrower to perform all the covenants, agreements and obligations of the Borrower in the Loan Agreement contained.

Section 7.03. The date of September 1, 1969 is specified for the purposes of Section 11.04 of the General Conditions.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1972 or such later date as may be agreed by the Bank.

Section 8.02. The following addresses are specified for the purposes of Section 10.01 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

Address for cables :

Intbafrad
Washington, D.C.

For the Borrower :

Sui Northern Gas Pipelines Limited
P.O. Box 56
Monnoo House
3 Montgomery Road
Lahore, Pakistan

Address for cables :

Suinorth
Lahore

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered 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 J. Burke KNAPP
Vice President

Sui Northern Gas Pipelines Limited :

By M. A. K. ALIZAI
Authorized Representative

SCHEDULE 1

ALLOCATION OF LOAN PROCEEDS

<i>Category</i>	<i>Amounts Expressed in US Dollar Equivalent</i>
1. Procurement and installation of high pressure transmission pipeline, including pipe, meters, regulators, valves, pipe fittings, coat and wrap materials and cathodic protection equipment and materials	4,300,000
2. Procurement and installation of compressor units, including ancillary fittings and equipment and generating equipment	2,050,000
3. Procurement of materials and equipment for expansion of distribution facilities, including pipe, meters, regulators, valves, pipes fittings, coat and wrap materials and cathodic protection equipment and materials	1,000,000
4. Engineering services related to Categories 1, 2 and 3 above	350,000
5. Unallocated	300,000
	<hr/>
	Total 8,000,000

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories 1 to 4 shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category will be reallocated by the Bank to Category 5.

2. If the estimate of the cost of the items included in any of the Categories 1 to 4 shall increase, an amount equal to the portion, if any, of such increase to be

financed out of the proceeds of the Loan will be allocated by the Bank, at the request of the Borrower, to such Category from Category 5, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of the cost of the items in the other Categories.

SCHEDULE 2

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
August 15, 1972	230,000	August 15, 1981	230,000
February 15, 1973	230,000	February 15, 1982	230,000
August 15, 1973	230,000	August 15, 1982	230,000
February 15, 1974	230,000	February 15, 1983	230,000
August 15, 1974	230,000	August 15, 1983	230,000
February 15, 1975	230,000	February 15, 1984	230,000
August 15, 1975	230,000	August 15, 1984	230,000
February 15, 1976	230,000	February 15, 1985	230,000
August 15, 1976	230,000	August 15, 1985	230,000
February 15, 1977	230,000	February 15, 1986	230,000
August 15, 1977	230,000	August 15, 1986	230,000
February 15, 1978	230,000	February 15, 1987	230,000
August 15, 1978	230,000	August 15, 1987	230,000
February 15, 1979	230,000	February 15, 1988	230,000
August 15, 1979	230,000	August 15, 1988	230,000
February 15, 1980	230,000	February 15, 1989	230,000
August 15, 1980	230,000	August 15, 1989	180,000
February 15, 1981	230,000		

* To the extent that any part of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	$\frac{3}{4}$ %
More than three years but not more than six years before maturity	1 $\frac{3}{4}$ %
More than six years but not more than eleven years before maturity	2 $\frac{3}{4}$ %
More than eleven years but not more than sixteen years before maturity	4 $\frac{1}{2}$ %
More than sixteen years but not more than eighteen years before maturity	5 $\frac{1}{2}$ %
More than eighteen years before maturity	6 $\frac{1}{2}$ %

SCHEDULE 3

DESCRIPTION OF PROJECT

The Project is the expansion of the capacity of the Borrower's gas transmission system from approximately 172 million cubic feet per day to approximately 207 million cubic feet per day and the provision of local distribution facilities in various urban areas. The Project includes :

1. The installation of approximately 93 miles of 18-inch diameter high pressure steel pipe, paralleling sections of the existing pipeline between Sui and Multan, including cathodic protection.
2. The construction of a new compressor station and the installation at this and other compressor stations of additional compressor units, with a capacity aggregating approximately 9,900 hp.
3. The installation of additional low pressure distribution facilities at Rahimyar Khan and in the Multan, Lyallpur, Lahore and Rawalpindi-Islamabad areas.
4. The installation of telecommunication and automation equipment for compressor and repeater stations in order to complete the automation of the Borrower's entire pipeline system.

The Project is expected to be completed by September 30, 1971.

SCHEDULE 4

MODIFICATIONS OF GENERAL CONDITIONS

For the purposes of this Loan Agreement the provisions of the General Conditions are modified as follows :

- (1) Paragraph 7 of Section 2.01 is amended to read as follows :

"7. The term 'Guarantor' means the Islamic Republic of Pakistan, acting by its President."

- (2) Paragraph 10 of Section 2.01 is deleted and the following new paragraph is substitutes therefor :

"10. The term 'Bonds' means Bonds issued and authenticated pursuant to the Trust Deed (except as otherwise provided in Section 8.06 (b)), with the guarantee of the Guarantor endorsed thereon as provided in the Loan Agreement and the Guarantee Agreement."

- (3) The following paragraph is added to Section 2.01 :

"18. The term 'Trust Deed' shall have the meaning as defined in the Loan Agreement."

- (4) Section 8.06 is amended to read as follows :

"SECTION 8.06. *Form of Bonds and of Guarantee.* (a) The Bonds shall be fully registered bonds without coupons (hereinafter sometimes called registered Bonds) or bearer bonds with coupons for semi-annual interest attached (hereinafter sometimes called coupon Bonds.) Bonds delivered to the Bank shall

be registered Bonds or coupon Bonds in such temporary or definitive form (authorized by the Trust Deed) as the Bank shall request. Registered Bonds and coupon Bonds payable in dollars and the coupons attached thereto shall be substantially in the forms respectively set forth in the Trust Deed. Bonds payable in any currency other than dollars shall be substantially in the forms respectively set forth in the Trust Deed, as the case may be, except that they shall (i) provide for payment of principal, interest and premium on redemption, if any, in such other currency, (ii) provide for such place of payment as the Bank shall specify, and (iii) contain such other modifications as the Bank shall reasonably request in order to conform to the laws or to the financial usage of the place where they are payable.

“(b) Notwithstanding any other provision of the Loan Agreement or these General Conditions, if the Bank shall so require, the Borrower shall execute and deliver bonds pursuant to Section 8.01 before the execution and delivery of the Supplemental Indenture. The provisions of Section 8.06 of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969, but before modification by paragraph (a) of this Section, shall apply to the form of any such bonds, with appropriate changes therein satisfactory to the Bank, to provide for the exchange thereof, free of cost to the Bank, for Bonds of the same respective amounts, currencies and maturities issued under the Trust Deed, the Loan Agreement and these General Conditions. All other provisions of the Loan Agreement, the Guarantee Agreement and these General Conditions relating or referring to Bonds shall apply *mutatis mutandis* to such bonds except where such application would be clearly inconsistent with the requirements of this paragraph.

“(c) All Bonds shall have the guarantee of the Guarantor endorsed thereon substantially in the form set forth in Schedule 2 to these General Conditions.”

(5) The following sentence is added at the beginning of Section 8.08, namely :

“Except as the Bank and the Borrower shall otherwise agree, Bonds shall be dated as hereinafter in this Section provided.”

(6) Section 8.17 is deleted.

(7) In Section 9.01, after the words “Guarantee Agreement” where those words occur, the words“, the Trust Deed” are added.

(8) By the deletion of the second sentence of Section 9.02 and the substitution therefor of the following sentence :

“Such obligations shall not be subject to any prior notice to, demand upon or action against the Borrower or to any prior notice to or demand upon the Guarantor with regard to any default by the Borrower, and shall not be impaired by any of the following : any extension of time, forbearance or concession given

to the Borrower; any assertion of, or failure to assert, or delay in asserting, any right, power or remedy against the Borrower or in respect of any security for the Loan; any modification or amplification of the provisions of the Loan Agreement contemplated by the terms thereof; any modification or amplification of any other document related to the Loan or related to any security therefore; any failure of the Borrower to comply with any requirement of any law, regulation or order of the Guarantor or of any political subdivision or agency of the Guarantor."

(9) Subsection (j) of Section 9.04 is amended to read as follows :

"(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the determination of controversies between the parties under the Loan Agreement and Guarantee Agreement or any claim by any such party against any other such party arising thereunder provided, however, that nothing herein shall be deemed to preclude any of the said parties from exercising, or instituting any legal or equitable action to enforce, any right or claim arising out of or pursuant to the Trust Deed or the Bonds, and submission to arbitration hereunder shall not be deemed to be a condition precedent or in any way to prejudice such exercise or other enforcement of any such right or claim."
