Project Agreement

(Natural Gas Efficiency Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT,
INTERNATIONAL DEVELOPMENT ASSOCIATION,

and

SUI SOUTHERN GAS COMPANY LIMITED

Dated June 5, 2012
PROJECT AGREEMENT

AGREEMENT dated June 5, 2012, entered into among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"), INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"), and SUI SOUTHERN GAS COMPANY LIMITED ("Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") and the Financing Agreement ("Financing Agreement") of same date between ISLAMIC REPUBLIC OF PAKISTAN ("Borrower") and the Bank and the Association, respectively. The Bank, the Association, and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Loan Agreement and in Section 1.01 of the Financing Agreement, respectively) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement, the Financing Agreement, or the General Conditions (as so respectively defined in the Loan Agreement and the Financing Agreement).

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objective of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the International Bank for Reconstruction and Development General Conditions for Loans dated July 31, 2010 and Article IV of the International Development Association General Conditions for Credits and Grants dated July 31, 2010, and shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association, the Bank, and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVES; ADDRESSES

3.01. The Project Implementing Entity’s Representative is its Managing Director.
3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INTBAFRAD
Telex: 248423(MCI) or 248423(MCI)
Facsimile: 1-202-477-6391

3.03. The Association’s Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INDEVAS
Telex: 248423(MCI)
Facsimile: 1-202-477-6391

3.04. The Project Implementing Entity’s Address is:

SSGC House
Sir Shah Suleman Road
B-14 Gulshan-e-Iqbal
Karachi 75300
Pakistan

Facsimile:
92-21-9923-1698
AGREED at Islamabad, Pakistan, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

SUI SOUTHERN GAS COMPANY LIMITED

By

Authorized Representative
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall be responsible for Project management, implementation, including administrative and financial management, disbursement, procurement, and implementation of environmental and social safeguards, and monitoring and evaluation.

2. To this end, the Project Implementing Entity shall maintain, throughout Project implementation, competent personnel in adequate numbers, satisfactory to the Bank and the Association as shall be required for purposes of Project implementation.

Independent Monitoring and Evaluation Consultant

3. The Project Implementing Entity shall appoint, not later than three (3) months after the Effective Date, in accordance with Section III of Schedule 2 to the Loan Agreement, and thereafter maintain throughout Project implementation, a consultant for the purposes of independent monitoring and evaluation of the implementation of the Project.

B. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Project Implementing Entity shall:

   (a) ensure that the Project is carried out in accordance with the provisions of the Environmental and Social Management Framework; and

   (b) not, except as the Bank and the Association shall otherwise agree in writing, assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the Environmental and Social Management Framework, or any provision thereof.

2. The Project Implementing Entity shall ensure that each contract for works under the Project includes the obligation of the relevant contractor to implement the Environmental and Social Management Framework.

3. The Project Implementing Entity shall take all measures necessary on its part to regularly collect, compile, and submit to the Bank and the Association, as part of the Project
Reports, information on the status of compliance with the Environmental and Social Management Framework, giving details of:

(a) measures taken in furtherance of the Environmental and Social Management Framework;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Environmental and Social Management Framework; and

(c) remedial measures taken or required to be taken to address such conditions.

4. In the event of a conflict between the provisions of the Environmental and Social Management Framework and those of this Agreement, the latter shall govern.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08 (b) of the International Bank for Reconstruction and Development General Conditions for Loans dated July 31, 2010 and Section 4.08 (b) of the International Development Association General Conditions for Credits and Grants dated July 31, 2010 and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each such Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Borrower, the Bank, and the Association not later forty-five (45) days after the end of the period covered by such report.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Target</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FY13</td>
</tr>
<tr>
<td></td>
<td><strong>Project Objective</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Reduction in unaccounted-for-gas (billion cubic feet, cumulative)</td>
<td>1.50</td>
</tr>
<tr>
<td>2.</td>
<td>Gas pipeline cathodically protected (kilometers, cumulative)</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td><strong>Part 1 of the Project</strong></td>
<td></td>
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<tr>
<td>3.</td>
<td>Gas pipeline rehabilitated (kilometers)</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Pressure management systems installed (number)</td>
<td></td>
</tr>
</tbody>
</table>
5. Meters installed (number)

6. Segmented unaccounted-for-gas reported to Oil and Gas Regulatory Authority (number of segments)

**Part 2 of the Project**

7. Appliance efficiency pilot project carried out

**Part 3 of the Project**

8. Customer satisfaction surveys carried out (number)

9. International training of trainers carried out (number of person-days)

2. The Project Implementing Entity shall provide to the Borrower not later than five (5) months after the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the International Bank for Reconstruction and Development General Conditions for Loans dated July 31, 2010 and Section 4.08 (c) of the International Development Association General Conditions for Credits and Grants dated July 31, 2010, all such information as the Borrower or the Bank shall reasonably request for the purposes of those Sections.

**B. Early-Term and Midterm Reviews**

The Project Implementing Entity shall:

(a) participate in the reviews referred to in Section II.A (a) of Schedule 2 to the Loan Agreement;

(b) prepare and furnish to the Borrower, the Bank, and the Association, at least one (1) month before each such review, a report, in scope and detail satisfactory to the Bank and the Association, needed to undertake the review as described in Section II.A (a) of Schedule 2 to the Loan Agreement, integrating the results of the monitoring and evaluation activities performed pursuant to Part A.1 (a) of this Section II on the progress achieved in the carrying out of the Project during the period preceding the date of such report, particularly in relation to the performance indicator of reduction in unaccounted-for-gas and the related targets set forth in Part A.1 (b) of this Section II, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) review, jointly with the Borrower, the Bank, and the Association, the report referred to in paragraph (b) of this Part B and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such report and the Borrower’s, the Bank’s, and the Association’s views on the matter.
C. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank and the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources, and expenditures related to the Project.

2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Borrower, the Bank, and the Association, not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank and the Association.

3. The Project Implementing Entity shall have the financial statements referred to in paragraph 1 of this Part C audited by independent auditors acceptable to the Bank and the Association, in accordance with consistently applied auditing standards acceptable to the Bank and the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be:
   (a) furnished to the Borrower, the Bank and the Association not later than six (6) months after the end of the period; and
   (b) made publicly available in a timely fashion and in a manner acceptable to the Bank and the Association.

4. (a) Except as the Bank shall otherwise agree in writing, the Project Implementing Entity shall maintain a ratio of current assets to current liabilities of not less than 1:1.
   (b) Before April 30 in each of its fiscal years, the Project Implementing Entity shall, on the basis of forecasts prepared by the Project Implementing Entity and satisfactory to the Bank and the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Borrower, the Bank, and the Association the results of such review upon its completion.
   (c) If any such review shows that the Project Implementing Entity would not meet the requirements set forth in paragraph (a) for the Project Implementing Entity’s fiscal years covered by such review, the Project Implementing Entity shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.
   (d) For the purposes of this paragraph 4:
      (i) The term “current assets” means cash, all assets which could in the ordinary course of business be converted into cash within twelve (12) 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 (12) 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; and

(iv) Whenever for the purposes of this paragraph 4 it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank and the Association.

5. (a) The Project Implementing Entity shall prepare and deliver to the Bank and the Association, not later than two (2) months after the end of each of the Project Implementing Entity’s fiscal years up to and including the Closing Date, an interim financial forecast for the Project Implementing Entity, in form and substance satisfactory to the Bank and the Association, covering that fiscal year and the two (2) subsequent fiscal years of the Project Implementing Entity, which forecast shall include the Project Implementing Entity’s projected capital expenditure plans and calculations of the ratio referred to in the following paragraph for the relevant fiscal years of the Project Implementing Entity.

(b) Except as the Bank and the Association may otherwise agree, the Project Implementing Entity shall maintain, for its fiscal years indicated in the following table, a ratio of its net revenues relative to its estimated maximum debt service requirements equal to or greater than the targets set forth in such table, as shall be confirmed by the audited financial statements referred to in paragraph 3 of this Part C:

<table>
<thead>
<tr>
<th>Project Implementing Entity’s fiscal year</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
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For the purposes of this paragraph 5:

(i) The term "net revenues" means the difference between:

(A) the sum of revenues from all sources related to operations adjusted to take account of the Project Implementing Entity's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the twelve (12)-month period to which such revenues relate and net non-operating income; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance, and taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges, and interest and other charges on debt;

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

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above;

(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; and

(iv) Whenever for the purposes of this paragraph 5 it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank and the Association.

(d) If at any time up to and including the Closing Date the Project Implementing Entity’s audited financial statements referred to in paragraph 3 of this Part C show that the Project Implementing Entity has failed to comply with the targets set forth in the table in subparagraph (b) of this paragraph 5, the Project Implementing Entity shall prepare a financial action plan, acceptable to the Bank and the Association, which the Project Implementing Entity shall deliver to the Bank and the Association not later than one hundred and twenty (120) days following the end of the immediately preceding fiscal year of the Project

1 Interest charges which are incurred in financing capital expenditures during construction should be excluded if such charges are capitalized. However, if the Project Implementing Entity’s policy is to meet the cost from operating income, such interest charges should be included in "debt service requirements".
Implementing Entity, setting forth the actions that shall be taken for the Project Implementing Entity to comply with such targets, and the Project Implementing Entity shall carry out such actions as so set forth.

(e) If at any time up to and including the Closing Date, any of the Project Implementing Entity's interim financial forecasts referred to in subparagraph (a) of this paragraph 5 show that the Project Implementing Entity shall fail to comply with the targets set forth in the table in subparagraph (b) of this paragraph 5, the Project Implementing Entity shall prepare a financial action plan, acceptable to the Bank and the Association, which the Project Implementing Entity shall deliver to the Bank and the Association not later than one hundred and twenty (120) days following the submission of such forecasts, setting forth the actions that will be taken for the Project Implementing Entity to comply with such targets, and the Project Implementing Entity shall carry out such actions as so set forth.

Section III. Procurement

All goods, works, non-consulting services, and consultants' services required for the Project and to be financed out of the proceeds of the Loan or the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.