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MONTHLY REPORT
MAY 2015

LEGAL ADVISORY SUPPORT FOR LNG PROCUREMENT

June 2015

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WATSON FARLEY
&
WILLIAMS

MEMORANDUM

To:	Talha Javed, Akbar Yusuf, Masood Bhatty, Tahawar Hussain, AEAI	**Date:**	11 June 2015
From:	Heike Trischmann, WFW	**Our Ref:**	55389845v1
Cc:	Andrew Baird, WFW		

Monthly Report - May 2015

Watson, Farley & Williams LLP ("**WFW**") has been engaged as international legal counsel by Advanced Engineering Associates International, Inc. ("**AEAI**") under Subcontract No. EPP-C1-SC-008 (dated 26 July 2014), Delivery Order No. EPP-C1-DO-002 (effective 01 April 2015) and Task Order-3 (effective 01 April 2015) to advise various stakeholders in, and the Government of (together the "**Client**"), the Islamic Republic of Pakistan ("**Pakistan**") on, negotiate on their behalf and help them finalise, as applicable, predominantly the following:

(1) all outstanding conditions subsequent under the LNG Services Agreement (the "**LSA**") dated 30 April 2014 between Engro Elengy Terminal (Private) Limited ("**EETPL**" or "**Operator**") and Sui Southern Gas Company Limited ("**SSGC**" or "**Customer**"), with particular focus on the direct agreements and option agreements required under clauses 4.1(e) and 4.1(f) of the LSA;

(2) commissioning of the EETPL terminal in accordance with the provisions of the LSA; and

(3) LNG supply agreement(s) for LNG importation into Pakistan under the LSA regime and the necessary tender documentation to satisfy regulatory requirements in Pakistan.

To enable WFW to fully perform these tasks, WFW subcontracted Vellani & Vellani Advocates and Legal Consultants ("**V&V**") in Karachi, Pakistan, to resolve questions involving Pakistan law and the Pakistan regulatory regime.

WFW's and V&V's work on this assignment started on 30 July 2014. We have previously reported on the progress we made on the above referred to tasks in the period from August 2014 to April 2015. In this memo, we set out below the work we have carried out during the month of May 2015 and key issues we faced and continue to face:

1. Conditions subsequent under the LSA

(a) Our work on closing the LSA continues, however, there is now very little interaction between WFW and the relevant stakeholders. We sent a few Emails mainly to chase the stakeholders in relation to some of the open issues directly with SSGC's legal department and its external legal counsel, Liaquat Merchant Associates ("**LMA**") and with Sheikh Imran-ul-Haque, Andalib Alavi and Sohail Kassamali on behalf of EETPL/Engro, as well as in a number of calls within our WFW team. These open issues continue to be:

(i) the PQA direct agreement between the Port Qasim Authority ("**PQA**"), EETPL and SSGC (without the lenders);

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(ii) the grant to SSGC of the relevant rights over land from Pakistan Steel Mills on behalf of EETPL; and

(iii) the transfer of the certificate of no objection (NOCs) from the Ministry of Defence (MOD) from EETPL's parent company to EETPL as the Operator under the LSA.

(b) In accordance with clauses 4.1(e) and (f) of the LSA, EETPL has to negotiate and obtain signatures of various direct agreements and option agreements in relation to the project assets and project documents. As reported in our last monthly report for April 2015, we have now executed the majority of the required agreements and are awaiting signature of a number of other draft documents, including the PQA direct agreement. These were all sent to you as part of previous monthly reports, however, please see the salient points of progress on these documents below.

(i) Regarding the PQA direct agreement, as previously reported, after various attempts to create a document that was agreeable to PQA, PQA (their external lawyer, Mr Isani) had drafted their own agreement which was amended by WFW in agreement with and with input from SSGC and EETPL and sent to PQA for approval. After a long silence we called Mr Isani and found out that he had approved our amendments some time back but that had never been officially communicated by him or PQA to us or any of the stakeholders. Due to Mr Masood Bhatty's involvement and him repeatedly chasing the PQA, three original PQA direct agreements were apparently executed by the PQA and sent to SSGC at the end of May, however, WFW has not seen these agreements. SSGC has informed us now that the agreements were signed by them and couriered to EETPL for their final signature. Please see the latest Emails in this regard.

(ii) As also previously reported, in March 2015 SSGC agreed with EETPL to waive the requirement for a full direct agreement in respect of the construction contracts with AUE (for the Connecting Pipeline) and CHEC (for the jetty and relevant unloading facilities) because the only outstanding benefit under those agreements that could be transferred at this stage was the benefit of the warranties the construction companies had given to EETPL in respect of their work and that could be claimed under if any breach had occurred during the 12-month warranty period starting from hand over. Instead, the construction companies agreed to assign these warranties to SSGC in case of an EETPL default. WFW's waiver letter to that respect was approved for signature by SSGC's board of directors on 17 March 2015. There is no update on this and we don't know whether this waiver letter has in fact been signed and issued by SSGC to ETPL. We have asked SSGC for an update but have not received any reply.

(iii) The EVTL direct agreement is closed. A duly signed and dated copy has previously been enclosed.

(iv) The FSRU charter direct agreement is closed. A duly signed and dated copy has previously been enclosed.

(v) The FSRU option agreement is closed. A duly signed and dated copy has previously been enclosed.

(vi) The fixed assets option agreement is closed. A duly signed and dated copy has previously been enclosed.

(c) Clause 4.1(d) of the LSA sets out SSGC's obligation to obtain (on EEETPL's behalf) the necessary rights of way (ROW) EETPL requires to enter into the project agreements and to operate the infrastructure. As previously reported, the only outstanding ROW is a lease agreement between Pakistan Steel Mills as the owner of the land on which the Custody Transfer Station (CTS) between the Connecting Pipeline and the SSGC Branch

Pipeline (both as defined in the LSA) are located that is wide enough to allow for the rights to the land to be subleased to EETPL. Although we have never seen a copy of it, we believe that SSGC currently has a lease agreement in place but that does not allow the sublease to a third party. As previously reported, in accordance with clause 4.2 of the LSA, SSGC has asked EETPL for a waiver from the requirement to furnish a lease agreement that allows for the land rights to be subleased/ a sub-lease of these rights. Again, there is no update on this and we have still not seen a copy of the letter of request for the waiver nor do we know whether EETPL has given such a waiver (if asked for) but have asked SSGC for a status report. We have not yet received an update.

(d) Clause 4.1(g) of the LSA requires all permits and NOCs which the Operator (EETPL) needs to be able to provide to the Customer (SSGC) the services under the LSA to be in the name of the Operator. The only outstanding issue, which we had previously believed to be closed, is the transfer of the relevant NOC from the Ministry of Defence (MOD) the request for which the MOD dismissed as too technical and legal and which no other Ministry or GOP entity (including MP&NR) seems to want to be responsible for. As a result of further discussions with MP&NR, WFW, SSGC and EETPL, a letter was sent by MP&NR to SSGC on 17 March 2015 for SSGC to raise its concerns directly with MP&NR and request relevant actions. We believed SSGC to not have responded to this letter within the given deadline and therefore considered the matter closed but it recently transpired that there has been some further correspondence between the MP&NR and SSGC on this issue. However, in accordance with AEAI's instructions, we did not follow this up any further as this is an issue strictly between the GOP and its stakeholders and not an area international legal consultant should/need to get involved in. The latest news appeared today when Mr Masood Bhatty forwarded a letter on this issue from EETPL to WFW which seems to summarise the latest developments.

(e) Clause 4.1(e) of the LSA requires EETPL to provide copies of all Project Documents (as defined in the LSA) for SSGC's review. In October 2014, we prepared a due diligence report on these documents for SSGC's attention and, where necessary, action. We never received any comments or questions in respect of it so, we don't know whether the report was actually ever read and any of the actions followed, however, we consider this issue closed.

(f) The Long-stop Date as defined in the LSA is the date before which all the conditions listed in clause 4.1 of the LSA should have been fulfilled or waived. This date was extended by amendment agreements 1, 2 and 3 to 28 February 2015. Amendment Agreement No. 3 states that the parties may extend the Long-stop Date only one more time. In their board meeting on 17 March 2015 SSGC's board of directors approved the further extension of the Long-stop Date to 30 March 2015. We have not seen a copy of the signed amendment agreement No. 3 so don't know whether it has in fact been signed nor do we know what agreement the parties may have reached regarding extension of the Long-stop Date beyond the end of March 2015 but have asked SSGC for a status report. There is therefore no further development on this point.

2. LNG supply agreements and tender procedures

Our work in respect of this task during May 2015 involved the following:

(a) As previously reported, after the meetings in Islamabad on 7/8 May 2015 the next redraft of the LNG Sales and Purchase Agreement ("**LNG SPA**") between Pakistan State Oil ("**PSO**") and Qatargas was sent by PSO to Qatargas on 8 May 2015. During these meetings the parties agreed all but 4 points and the draft was still subject to the approval of Qatargas' internal finance and legal departments as their relevant people could not join the Islamabad meetings in person.

This internal approval seems to now have been obtained and Qatargas forwarded the final redraft to PSO on 19 May 2015. This redraft contained some minor drafting points and a couple of corrections of cross-references but the 4 outstanding points still remain:

(i) Price (which was discussed but not agreed during separate meetings);

(ii) the issue of whether PSO/GOP would be able to send Qatargas an official letter that compounding in Pakistan was anti-Islamic so that the 3 references in the LNG SPA to compounding interest upon payment default could be removed;

(iii) the relevant conditions precedent under the LNG SPA; and

(iv) confirmation by PSO that PQA had agreed to recalculation of the port tariff for LNG carriers and reduce or cap that tariff at US$285,000 per LNG carrier per calling at Port Qasim. Please see the latest draft and relevant Email attached.

The State of Qatar also has to provide an executed copy of the Government to Government Agreement under the powers of which the LNG SPA will be concluded.

(b) In April 2015 (and although after the event) WFW together with FGE also helped finalising the arrangements regarding the commissioning cargo. We previously forwarded a copy of the signed LNG waiver agreement that needed to be put in place to be able to undertake commissioning in the proposed way which differed from that set out under the LSA. We have only now been sent a copy of the sub-charter agreement for the commissioning cargo. Please see the scanned copy attached.

(c) As previously reported, the Master Sale Purchase Agreement ("**MSPA**") was finalised amongst all the Pakistani stakeholders and forms part of the tender package for spot cargoes during the months of July through October that WFW and FGE were helping PSO and the GOP put together, drafting and revising and advising on various PSO comments and suggested redrafts. Apart from the MSPA, the package comprises the main bid document that sets out the rules of the tender, a confidentiality agreement, a confirmation notice for each of the 4 cargoes and it attaches the terminal regulations for the EETPL import terminal (which WFW and FGE were not involved in preparing, negotiating or revising) and the integrity pact. We attach pdf copies of the bid documents as they appeared on PSO's website. There were still quite a number of snags that should have been removed before the documents were published, including that some were not stamped and/or initialled although the bid document said they would be and physical documents made available to prospective bidders were so stamped and initialled. We also understand that no integrity pact has been published together with the other documents, however, this can also be made available together with the finalised confirmation notices that will be sent ready for signature by the selected bidders.

The remaining issues up to the date of this memorandum include, but are not limited to, STS training of the proposed LNG carrier's crew, ship-shore/FSRU compatibility and port clearance by the relevant prospective bidder/supplier and it is not clear to us whether any of the prospective bidders have been able to obtain/clear any of these items in time for the 15th June 2015 bid submission deadline. WFW has also helped PSO in putting together official responses to the various queries and comments raised by prospective bidders, part of which appeared on the PSO website but some are newer and we are not aware of these having been published by PSO. Please see relevant Emails and attachments submitted together with this monthly report.

(d) We had various calls with FGE and PSO/ODC and internally within WFW, particularly on the tender process and documents to move these matters forward and update each other on progress.

(e) We wrote a large number of Emails in support of the above.

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