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His Royal Highness
Prince Sultan bin Abdul Aziz Al Saud
Second Deputy Prime Minister and
Minister of Defence and Aviation and
Inspector General of the Armed Forces
Ministry of Defence and Aviation
RIYADH

30 July, 1986

Your Royal Highness

After Greetings

PROJECT AL YAMAMAH

It seemed to me that the friendly and constructive atmosphere at our meeting in Riyadh today reflected fully the spirit of co-operation which exists between the Governments of the Kingdom of Saudi Arabia and the United Kingdom and of our determination to ensure the success of this most important Project. During our meeting I explained the positive response the British Government is able to make to the points Your Royal Highness raised with me at our meeting in Taif on 26th May 1986. As we agreed today, the purpose of this letter is to record in one document our various understandings on financing arrangements for the Project and I should be most grateful if Your Royal Highness could sign both copies of this letter and return one to me as evidence of our understandings.

2. As I said during our meeting, I have to apologise for the delay in responding to Your Royal Highness, but the continuing fall in oil prices has necessitated much discussion with the British oil companies and financial authorities. However, as I explained, we now believe that the arrangements set out in this letter will adequately sustain the funding of Project Yamamah to ensure its successful completion in the timescale agreed.
3. Your Royal Highness confirmed that the Project will be fully funded by means of revenue deriving from the sale of oil at a rate of at least 300,000 barrels per day for as long as is necessary to meet the payment obligations and to bring the Project to a successful conclusion. To cater for an initial shortfall between the funding requirements of the Project, and the revenue derived from the Oil Agreement, it is our intention to arrange a finance facility to be repaid in like manner through the revenue derived from oil.

What's that?

4. In accordance with the request made by Your Royal Highness, I am pleased to confirm that under the structure we have established the Kingdom of Saudi Arabia will not be a party to the proposed finance facility. However, in order for us to make the facility effective, and thus ensure the funding of the Project, for reasons of clarification we set out below certain understandings already reached between us:-

(a) Volume of Oil

In view of the current depressed price of oil the revenue being generated by the Oil Agreement dated 26th January 1986 is less than was anticipated at that time. In our meeting at Taif Your Royal Highness suggested that additional oil might be made available in order to boost the revenue generated for the Project.

Consequently we have approached the British oil companies who have indicated their agreement to increase liftings, subject to terms from 300,000 to approximately 400,000 barrels a day until the end of March 1987, and as we agreed today, it is our mutual aim to maintain this level throughout the life of the Project. They have also indicated that they will endeavour, given market conditions prevailing, to take larger quantities. It has been assessed that the combination of these steps will, in practice, ensure sufficient oil revenue to meet the Project's cash flow requirements and to make the necessary payments under the finance facility until that time, and thus remove uncertainty in the Project funding in the short term. We further agreed that it would be sensible to review these arrangements at six-monthly intervals and that the first such review would be held in December 1986. I confirm that the British Government recognises the importance of the review procedure as ensuring that overall steps are mutually agreed in good time to keep the Project's requirements in line with the flow of funding. There is no suggestion that, at these review dates, there would be an automatic change of arrangements.

(b) Implementation of Increased Oil Liftings

As we agreed today it is necessary for Your Royal Highness to notify the Ministry of Petroleum so that the necessary negotiations can be commenced with the British oil companies Shell and BP as soon as possible.

(c) Finance Facility

As Your Royal Highness has already appreciated the finance facility will have associated with it certain costs. We reconfirmed at today's meeting that such costs, properly incurred and concerned with the finance facility, will be payable out of revenue generated by the sale of oil or by such other means as the Kingdom of Saudi Arabia may choose. We further reconfirm the understanding that such costs would be additional to the £5 billion sterling previously agreed between us as the value of Phase I of the Al Yamamah Project.

Regarding the facility, I agreed that the British Government will provide a monthly notification of the charges being made and confirmed that we will also act in the interests of the Government of the Kingdom of Saudi Arabia and of the Project to obtain competitive terms for this facility.

In addition we would propose that, pending final repayment of the finance facility all monies (less United Kingdom Ministry of Defence Departmental Expenses) paid into MODA's account with Lloyds Bank be transferred into a separate account in the name of the United Kingdom Ministry of Defence with the designated lead bank for the providers of the finance. We further agreed in principle to the suggestion made by Your Royal Highness that a Saudi Arabian Bank should also be involved in this arrangement, the precise details of which I am confident can be implemented in a manner which will meet the requirements of the Kingdom of Saudi Arabia. Such separate account will be debited from time to time with amounts due to the provider of the finance facility and to the Ministry of Defence.

5. Summary

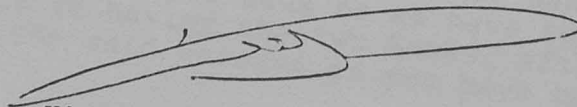
During our discussions Your Royal Highness eloquently provided the summary of our understandings when you confirmed the Kingdom of Saudi Arabia's obligation to pay the total costs associated with the project through the sale of oil and/or (to the extent that the sale of oil for this purpose is not possible) through such other means as the Saudi Arabian Government so chooses, and this will be achieved by both of our Governments working in good faith together for the overall benefit of the Project.

6. We should be grateful if Your Royal Highness could confirm your agreement to the understandings set out above by countersigning both copies of this letter.

Yours sincerely
Hubbards

I confirm acceptance of the understandings set out in this letter, subject to our letter Nr. 4/3/12/1007-3 dated 26/11/1406H.

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His Royal Highness
Prince Sultan bin Abdul Aziz Al Saud
Second Deputy Prime Minister and
Minister of Defence and Aviation and
Inspector General of the Armed Forces

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الرقم: ١٠٠٧/١٤/٢/٤

التاريخ: ١٤٠٦/١١/٤٦

المرفقات:

الموضوع:



المملكة العربية السعودية
وزارة الدفاع والطيران والمفتشية العامة
سليمان بن عبدالعزيز

Mr. Colin M. Chandler,
Head of Defence Export Services,
Ministry of Defence, London.

Greetings:

FINANCIAL ARRANGEMENTS PROJECT AL-YAMAMAH

Reference is made to your letter directed to us on July 30th, 1986 corresponding to 23/11/1406H regarding the financial arrangements for Project Al-Yamamah.

We wish to inform you that we have signed your letter above confirming acceptance of what have been mentioned in it, and the essential consideration of the points detailed in this letter as an inseparable part of this agreement which are as follows:

1. That the financial arrangements detailed in your letter above will become effective on the date of signing this letter and without back-dating effect.
2. That oil net-back returns are deposited initially into a special account bearing the same previous name: Ministry of Defence and Aviation/Kingdom of Saudi Arabia with the Saudi International Bank and then transferred to Lloyds Bank as we have suggested. We do not object to having the two Banks, afterwards, jointly manage the said account as you have suggested.

Best regards,

Sultan Bin Abdul Aziz,

Second Deputy Prime Minister and
Minister of Defence and Aviation
and Inspector General.