

CONFORMED COPY

LOAN NUMBER 3716 CHA

Loan Agreement  
(Sichuan Gas Development and Conservation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated September 16, 1994

LOAN NUMBER 3716 CHA

LOAN AGREEMENT

AGREEMENT, dated September 16, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to obtain from the Global Environment Trust Fund (GET), administered by the Bank, a grant (the GET Grant) in an amount in various currencies equivalent to seven million three hundred thousand Special Drawing Rights (SDR 7,300,000) to assist in financing Part D (c) of the Project on the terms and conditions set forth in an agreement (the GET Grant Agreement) to be entered into between the Borrower and Bank acting as administrator of GET;

(C) Part A of the Project will be carried out by the Borrower, and Part E.2 of the Project will be carried out by China National Petroleum Corporation (CNPC) and Parts B, C, D, and E.1 of the Project will be carried out by Sichuan Petroleum Administration (SPA) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to CNPC and SPA the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to

extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and CNPC and SPA;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. 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) "CNPC" means China National Petroleum Corporation, a state owned enterprise organized and existing, pursuant to its Charter dated December 7, 1988, under the laws of the People's Republic of China.

(b) "Oil and Gas Restructuring Program" means the Borrower's oil and gas restructuring program and includes the restructuring action plan formulated or to be formulated pursuant to the technical assistance provided under the Japanese Grant Agreement (Sichuan Gas Development and Conservation Project), dated February 12, 1993, between the Borrower and the Bank (acting on its own behalf and as Administrator of grant funds provided by Japan).

(c) "Project Agreement" means the agreement between the Bank and CNPC and SPA of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(d) "Special Drawing Rights" and the symbol "SDR" mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement".

(e) "SPA" means the Sichuan Petroleum Administration, a state owned enterprise organized and existing, pursuant to its Charter dated May 12, 1993, under the laws of the People's Republic of China.

(f) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement.

(g) "Subsidiary Loan Agreements" means the agreements to be entered into between the Borrower and CNPC and the Borrower and SPA respectively pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreements.

(h) "technical services" means well drilling, seismic surveys and other activities associated therewith.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that

shall have an aggregate value equivalent to the amount of two hundred and fifty five million dollars (\$255,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars two separate special deposit accounts, each for Part E.2 and Parts B, D and E.1 respectively, in a bank or banks, acceptable to the Bank, on terms and conditions satisfactory to the Bank including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each of the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank

shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) The Borrower shall, without any limitation or restriction upon any of its other obligations under the Loan Agreement, cause CNPC and SPA to perform all their respective obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CNPC and SPA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) The Borrower shall relend the proceeds of the Loan to CNPC and SPA under separate subsidiary loan agreements to be entered into between the Borrower and CNPC and the Borrower and SPA, under terms and conditions which shall have been agreed to by the Bank which shall include: (i) the proceeds of each subsidiary loan shall be repaid over a period of twenty years, including five years of grace; (ii) CNPC and SPA shall each pay interest on the principal amount of its subsidiary loan withdrawn and outstanding from time to time at the rate calculated in accordance with Section 2.05 of this Agreement; (iii) CNPC and SPA shall each pay to the Borrower a commitment charge on the principal amount of its subsidiary loan not withdrawn from time to time at the rate stated in Section 2.04 of this Agreement; and (iv) CNPC and SPA shall each bear the foreign exchange risk in respect of its subsidiary loan.

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part E.2 and Parts B, C, D, and E.1 of the Project shall be carried out by CNPC and SPA respectively pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall carry out the Sichuan Gas Pricing and Allocation Reform Action Plan, agreed with the Bank, in a manner satisfactory to the Bank.

Section 3.05. The Borrower shall revise and adopt accounting standards for the oil and gas sector consistent with internationally accepted accounting standards.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) CNPC or SPA shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CNPC or SPA will be able to perform its obligations under the Project Agreement.

(c) The Charter of CNPC or SPA shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CNPC or SPA to perform any of its obligations under the Project Agreement.

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

(e) The GET Grant Agreement shall have failed to become effective by November 30, 1994 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the

satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

(B) any such loan shall have become due and payable prior to the maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of ninety days after notice thereof shall have been given by the Bank to the Borrower;

(b) any event specified in paragraphs (c), (d) or (e) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of that Section.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreements have been executed by the parties thereto; and

(b) the Borrower's State Council has approved this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by CNPC and SPA, and is legally binding upon CNPC and SPA in accordance with its terms;

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower and CNPC and the Borrower and SPA respectively and are legally binding upon the Borrower and CNPC and the Borrower and SPA respectively in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Sanlihe  
Beijing 100820  
People's Republic of China

Cable address:

FINANMIN  
Beijing

Telex:

22486 MFPRC CN

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (RCA),  
82987 (FTCC),  
64145 (WUI) or  
197688 (TRT)

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Yang Jiechi

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas Hope

Acting Regional Vice President  
East Asia and Pacific

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and

the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods and technical services under Part B of the Project	140,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Goods under		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(a) Part E.2(c) of the Project	700,000	
(b) Parts D of the Project	40,100,000	
(3) Goods under Part C of the Project	33,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(4) Consultants' services and training under		100%
(a) Parts E.2(a) and (b) of the Project	3,800,000	
(b) Part E.1 of the Project	11,400,000	
(5) Unallocated	25,000,000	
TOTAL	255,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures: (a) prior to the date of this



Agreement, except that withdrawals, in an aggregate amount not to exceed \$10,000,000, may be made in respect of Categories (1), (2) and (4) on account of payments made for expenditures before that date but after September 30, 1993; and (b) under Category (3), unless arrangements, satisfactory to the Bank, have been made to ensure the safety of the gas transmission and distribution pursuant to Part C of the Project.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenziture for expenzitures under contracts for training and goods (not exceeding \$400,000 equivalent), under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) support the restructuring of the Borrower's upstream oil and gas sector; (b) promote the development and conservation of gas resources in an economic efficient and environmentally sound manner; and (c) strengthen the institutional capabilities of CNPC and SPA.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A: Oil and Gas Sector Restructuring

Initiation of the first phase of the Oil and Gas Restructuring Program through, inter alia, commercialization and corporatization of CNPC and SPA, introduction of a commercial accounting system, and implementation of productivity enhancement and related human resources development programs.

#### Part B: Gas Fields Development and Rehabilitation

1. Development of proven gas reserves in about fourteen selected gas fields in East Sichuan through: (a) drilling of about 100 infill development wells; (b) acquisition of about 8,800 line-kilometers seismic survey and interpretation; and (c) construction of surface facilities consisting of gas gathering systems, gas dehydration and formation water treatment units.

2. Rehabilitation of old gas wells, about 90 in East Sichuan and 100 in Central Sichuan, through work-over, reservoir stimulation and well re-completion.

3. Provision of state-of-the-art technology, equipment and materials for geophysical surveys, gas well drilling and completion, and production and environmental management.

#### Part C: Expansion of Gas Transmission and Distribution

1. Construction of desulfurization plants.

2. Installation of gas transmission and distribution system through the construction of: (a) about 18-20 inch diameter x 35 kilometers long loop line from Fuying to Naxi; (b) about 18 inch diameter x 16 kilometers long loop line from Wubaiti to Jiangzhi; (c) about 18 inch diameter x 71 kilometers long loop line from Wolonghe to Daosuiqiao; (d) about 18-22 inch diameter x 124 kilometers long pipeline from Jiangzhi to Wolonghe; and (e) about 10 inch diameter x 40 kilometers long pipeline from Fengjiawan to Wanxian, along with the related corrosion control, measurement and gas control facilities.

#### Part D: Gas Transmission and Distribution Rehabilitation

Rehabilitation of SPA's gas transmission and distribution systems including (a) rehabilitation and upgrading of pipelines, measurement, corrosion control, corrosion inhibition, telecommunication, gas control, gas quality monitoring and emergency response facilities of SPA's entire gas transmission and distribution system; (b) deterioration monitoring and evaluation of the transmission and distribution system; (c) environmental upgrades to reduce methane emissions; and (d) provision of a

supervisory control and data acquisition system (SCADA) for the whole transmission and distribution system.

Part E: Institutional Building

1. Institutional strengthening of SPA through technical assistance and training in modern petroleum technology and management including: (a) Provision of in-country and overseas training of SPA staff in gas field development, gas transmission and distribution, and financial management; (b) promotion of petroleum development; and (c) tariff setting.

2. Provision of national petroleum education including: (a) short and medium term overseas training; (b) lecturing by international experts in China; and (c) teaching materials and computer software.

\* \* \*

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
November 1, 1999	4,830,000
May 1, 2000	5,005,000
November 1, 2000	5,190,000
May 1, 2001	5,375,000
November 1, 2001	5,575,000
May 1, 2002	5,775,000
November 1, 2002	5,985,000
May 1, 2003	6,205,000
November 1, 2003	6,430,000
May 1 2004	6,660,000
November 1, 2004	6,905,000
May 1, 2005	7,155,000
November 1, 2005	7,415,000
May 1, 2006	7,685,000
November 1, 2006	7,965,000
May 1, 2007	8,255,000
November 1, 2007	8,555,000
May 1, 2008	8,865,000
November 1, 2008	9,185,000
May 1, 2009	9,520,000
November 1, 2009	9,865,000
May 1, 2010	10,225,000
November 1, 2010	10,595,000
May 1, 2011	10,980,000
November 1, 2011	11,380,000
May 1, 2012	11,795,000
November 1, 2012	12,225,000
May 1, 2013	12,670,000
November 1, 2013	13,130,000
May 1, 2014	13,600,000

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage

specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods

###### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued or agreed to by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$1,000,000 or more.

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the

Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Specialized equipment and technical services, including coring bits, seismic data processing equipment and technical services for directional drilling, electric logging, cementing, testing, stimulation and production testing, up to an aggregate amount equivalent to \$25,500,000 may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Items or groups of items for goods, estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$2,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Contracts for proprietary equipment may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and technical services, estimated to cost the equivalent of \$1,000,000 or more, to be procured in accordance with the procedures described in Parts A.1, C.1 and C.2 hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of any of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of any of the Special Accounts, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Parts A and E of the Project, the Borrower shall employ and cause CNPC and SPA to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued or agreed to by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

## Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 2(a) and 4(a), and 1, 2(b) and 4(b) in respect of the Special Accounts for Part E.2 and Parts B, D and E.1 of the Project respectively, set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 and \$10,000,000 in respect of the Special Accounts for Part E.2 and Parts B, D and E.1 of the Project respectively, to be withdrawn from the Loan Account and deposited in the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that each of the Special Accounts has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish each of the Special Accounts shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in each of the Special Accounts such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of each of the Special Accounts, the Borrower shall furnish to the Bank requests for deposits into each of the Special Accounts at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into each of the Special Accounts such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of each of the Special Accounts for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of each of the Special Accounts, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into each of the Special Accounts:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective part of the Project, less the amount of any outstanding

special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to such part, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for such part shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in each of the Special Accounts as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of each of the Special Accounts: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into each of the Special Accounts (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into each of the Special Accounts shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in each of the Special Accounts will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in each of the Special Accounts.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

