

CONFORMED COPY

LOAN NUMBER 3716 CHA

Project Agreement
(Sichuan Gas Development and Conservation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CHINA NATIONAL PETROLEUM CORPORATION
and
SICHUAN PETROLEUM ADMINISTRATION

Dated September 16, 1994

LOAN NUMBER 3716 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 16, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CHINA NATIONAL PETROLEUM CORPORATION (CNPC) and SICHUAN PETROLEUM ADMINISTRATION (SPA).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to two hundred and fifty five million dollars (\$255,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that CNPC and SPA agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by Subsidiary Loan Agreements to be entered into between the Borrower and CNPC and the Borrower and SPA, the proceeds of the loan provided for under the Loan Agreement will be relented to CNPC and SPA on the terms and conditions set forth in said Subsidiary Loan Agreements; and

WHEREAS CNPC and SPA, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. CNPC and SPA declare their commitment to the objectives of the Project as set forth in Schedule 1 to the Loan Agreement, and, to this end, shall carry out Part E.2 and Parts B, C, D and E.1 respectively of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part E.2 and Parts B, C, D and E.1 respectively of the Project.

Section 2.02. 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 the Loan Agreement.

Section 2.03. CNPC and SPA shall carry out 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 the Project Agreement and Part E.2 and Parts B, C, D and E.1 respectively of the Project.

Section 2.04. CNPC and SPA shall duly perform all their obligations under their respective Subsidiary Loan Agreements. Except as the Bank shall otherwise agree, CNPC and SPA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving their respective Subsidiary Loan Agreements or any provision thereof.

Section 2.05. (a) CNPC and SPA shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part E.2 and Parts B, C, D and E.1 respectively of the Project, the performance of their respective obligations under this Agreement and under their respective Subsidiary Loan Agreements, and other matters relating to the purposes of the Loan.

(b) CNPC and SPA shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part E.2 and Parts B, C, D and E.1 respectively of the Project, the accomplishment of the purposes of the Loan, or the performance by CNPC or SPA of their respective obligations under this Agreement and under their respective Subsidiary Loan Agreements.

Section 2.06. CNPC and SPA shall carry out the training and technical assistance under Parts E.2 and E.1 respectively of the Project in accordance with a program agreed with the Bank and in a manner satisfactory to the Bank.

Section 2.07. SPA shall maintain the Project Management Office established by it with functions, powers, funds, facilities, and staffing satisfactory to the Bank.

Section 2.08. SPA shall carry out an environmental management program including the regular gas leak detection and maintenance program, agreed with the Bank, in a manner satisfactory to the Bank.

Section 2.09. SPA shall, by December 31, 1994, furnish to the Bank an action plan to strengthen its internal audit function and, thereafter, implement the said plan taking into account the comments, if any, thereon by the Bank.

ARTICLE III

Management and Operations of CNPC and SPA

Section 3.01. CNPC and SPA shall each carry on its operations and conduct its affairs in accordance with sound administrative, financial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. CNPC and SPA shall each at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

Section 3.03. CNPC and SPA shall each 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 appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) CNPC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures in respect of Part E.2 of the Project.

(b) SPA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(c) CNPC and SPA shall each:

(i) have the records and accounts referred to in paragraphs (a) and (b) of this Section, respectively, and SPA shall have its financial statements (balance sheets, statements of income and of sources and uses of funds) 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, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, SPA shall from time to time take, or cause to be taken, all such measures (including, without limitation, adjustments of the levels of its tariffs) as shall be required to produce, for its operations as a whole and for its operations related to each of gas production, purification and transmission, respectively, total operating revenues equivalent to not less than the sum of: (i) total operating expenses; and (ii) the amount by which financial obligations exceed the provision for depreciation and any other non-cash operating expenses.

(b) Except as the Bank shall otherwise agree, SPA shall take all such measures (including, without limitation, adjustments of levels of its tariffs and improvements in operational efficiency) as shall be required to produce net cash surplus equivalent to not less than fifty percent (50%) of its average annual investment program.

(c) Except as the Bank shall otherwise agree, SPA shall take all such measures (including, without limitation, adjustments of the levels of its tariffs and improvements in operational efficiency) as shall be required to achieve a financial internal rate of return of not less than 12% (in real terms) for the Project.

(d) For the purposes of this Section:

(i) The term "total operating revenues" means the sum of revenues from all sources related to operations and net non-operating income.

(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 "total operating expenses" means the sum of all expenses related to operations, including maintenance, administration and depreciation.

(iv) The term "financial obligations" means interest and other charges on debt; repayment of loans (including sinking fund payments, if any); all taxes or payments in lieu of taxes; allocations to special funds and other cash distributions of surplus funds (including mandatory transfers to the government); and any other cash outflows (other than capital expenditures) related to operations.

(v) The term "cash operating expenses" means the sum of expenses related to operations, including maintenance and administration but excluding depreciation.

(vi) The term "debt" means any indebtedness of a Company maturing by its terms more than one year after the date on which it is originally incurred.

(vii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(viii) The term "internal cash generation" means the difference between:
 (A) the sum of revenues from all sources related to operations and net non-operating income; and
 (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating expenses and interest and other charges on debt.

(ix) The term "net cash surplus" means total operating income minus the sum of:
 (A) cash operating expenses; and (B) financial obligations.

(x) The term "average annual investment program" means the average of:
 (A) the previous year's actual capital expenditures; (B) the current year's planned capital expenditure; and (C) the next year's projected capital expenditure.

(xi) The term "financial internal rate of return" means the discount rate which leads to a net present value of zero when discounting the net cash flow over the Project's 20-year life.

(xii) The term "net cash flow" means total operating income from the Project minus the sum of; (A) capital expenditures relating to the Project; and (B) the sum of all cash expenses related to the operations of the Project, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for

depreciation, other non-cash operating expenses and charges on debt.

interest and other

(xiii) Whenever for the purposes of this Section, it shall be necessary to value, in terms of Renminbi, 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.

Section 4.03. SPA shall, by September 30 of each year commencing in 1994, furnish annually to the Bank a rolling long-term financial plan (including projected income statements, sources and uses of funds and balance sheets for a period of no less than eight years) and exchange views with the Bank on its financial position, focusing on comparison of actual financial performance with agreed targets, operating cost trend, future investment and related financing arrangements.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of CNPC and SPA thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify CNPC and SPA thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

For CNPC:

China National Petroleum Corporation
P.O. Box 766
Post Code 100724

Liu Pu Kang
Beijing
People's Republic of China

Cable address:

Beijing 3112
Beijing

Telex:

22312 PCPRCCN

For SPA:

Sichuan Petroleum Administration
3 Block 1, Fuqing Road
P.O. Box 55
Chengdu, Sichuan
People's Republic of China

Cable address:

3111 Chengdu
Chengdu

Telex:

60203 SPA CN

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of CNPC or SPA, or by CNPC or SPA on behalf of the Borrower under the Loan Agreement, may be taken or executed by its Director or such other person or persons as its Director shall designate in writing, and CNPC and SPA shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas Hope

Acting Regional Vice President
East Asia and Pacific

CHINA NATIONAL PETROLEUM CORPORATION

By /s/ Yang Jiechi

Authorized Representative

SICHUAN PETROLEUM ADMINISTRATION

By /s/ Yang Jiechi

Authorized Representative



