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**LOAN NUMBER 7705-CN**

# **Project Agreement**

**(Shanxi Coal Bed Methane Development and Utilization Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**SHANXI PROVINCE**

**Dated July 2, 2009**

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## **PROJECT AGREEMENT**

AGREEMENT dated July 2, 2009, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and SHANXI PROVINCE (“Shanxi” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and Shanxi hereby agree as follows:

### **ARTICLE I – GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) 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 or the General Conditions.

### **ARTICLE II – PROJECT**

- 2.01. Shanxi declares its commitment to the objectives of the Project. To this end, Shanxi shall cause SECBMIH to carry out the Project, in accordance with the provisions of Article V of the General Conditions; and (ii) provide promptly, or cause to be provided, 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 Bank and Shanxi shall otherwise agree, Shanxi shall cause SECBMIH to carry out the Project in accordance with the provisions of the Schedule to this Agreement.

### **ARTICLE III – REPRESENTATIVE; ADDRESSES**

- 3.01. Shanxi’s Representative is Governor or a Vice Governor or such other person or persons as said Governor or a Vice Governor shall designate in writing, and Shanxi shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.
- 3.02. The Bank’s Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. Shanxi's Address is:

The Shanxi Provincial Finance Bureau  
No. 345 Yingze Street  
Taiyuan Municipality  
Shanxi Province, People's Republic of China

Facsimile

(0351) 4045332

AGREED at Beijing, People's Republic of China, as of the day and year first  
above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ David Dollar  
Authorized Representative

SHANXI PROVINCE

By /s/ Shen Lianbin  
Authorized Representative

## **SCHEDULE**

### **Execution of the Project**

#### **Section I. Implementation Arrangements**

##### **Anti-Corruption**

1. Shanxi shall cause SECBMIH to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

##### **Resettlement, Environment Protection and CBM and LNG Safety Measures**

2. Shanxi shall:
  - (a) take, and cause SECBMIH to take, all necessary actions to minimize, to the extent possible, any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, in carrying out the Project;
  - (b) for this purpose and prior to the commencement of any civil works under the Project, implement, and cause SECBMIH, to implement its Resettlement Action Plan in a manner satisfactory to the Bank; and
  - (c) provide, and cause SECBMIH to provide, to the Bank for its prior concurrence any proposed modification or waiver of its Resettlement Action Plan, prior to putting into effect such modification or waiver.
3. Shanxi shall cause SECBMIH to:
  - (a) implement its respective EMPs in a manner satisfactory to the Bank to ensure that the Project is implemented in accordance with sound environmental practices, standards and safety measures; and
  - (b) provide to the Bank for its prior concurrence any proposed modification or waiver of its respective EMPs, or any provisions thereof, prior to putting into effect such modification or waiver.
4. Shanxi shall cause SECBMIH to:
  - (a) implement the Safety Management Plan in a manner satisfactory to the Bank to ensure that the Project is implemented in accordance with sound safety measures and procedures;

- (b) engage and maintain throughout the period of Project implementation, an independent safety panel of experts or an independent safety review firm, with the experience and qualifications and under terms of reference, satisfactory to the Bank, for the purpose, *inter alia*, of reviewing and advising on safety matters under the Project; and
  - (c) provide to the Bank for its prior concurrence any proposed modification or waiver of the Safety Management Plan, or any provisions thereof, prior to putting into effect such modification or waiver.
5. Shanxi shall, and shall cause SECBMIH to:
- (a) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the EMPs, the RAP and the Safety Management Plan and the achievement of the objectives of said plans, including the engagement of experienced and qualified independent monitoring agencies with terms of reference acceptable to the Bank; and
  - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by March 15 of each year, commencing on March 15, 2010, annual reports of the results of the monitoring and evaluation activities with respect to the EMPs, the RAP, and the Safety Management Plan referred to in sub-paragraph (a) above, together with any revisions proposed to be introduced into said plans in order to achieve their respective objectives.

#### **Subsidiary Loan Agreement**

6. (a) Shanxi shall relend the proceeds of the Loan to SECBMIH for purposes of carrying out the Project, under a Subsidiary Loan Agreement to be entered into between Shanxi and SECBMIH:
- (i) on the principal terms set forth in paragraphs 1 through 4 of Annex A to this Schedule; and
  - (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 5 through 15 of the Annex A to this Schedule.
- (b) Shanxi shall cause SECBMIH to perform, in accordance with the provisions of the Subsidiary Loan Agreement all of the obligations of SECBMIH therein set forth.

- (c) Shanxi shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Bank and Shanxi and to accomplish the purposes of the Loan. Except as the Borrower and the Bank shall otherwise agree, Shanxi shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any of its provisions.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

- 1. Shanxi shall, and shall cause SECBMIH to 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 General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.
- 2. Shanxi shall provide to the Borrower not later than six (6) months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

**B. Financial Management, Financial Reports and Audits**

- 1. Shanxi shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, in a manner adequate to reflect the operations, resources and expenditures related to the Project.
- 2. Shanxi shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of Shanxi. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

**Section III. Procurement**

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

**Section IV. Other Undertakings**

Shanxi shall cause NCBPC to construct and operate the facilities under the Related Activities, under arrangements and a time schedule, satisfactory to the Bank, for the evacuation and processing of CBM produced under the Project, including implementation of the EMP and the RAP for the Related Activities to address any adverse environmental and social impacts, all in a manner satisfactory to the Bank.

**ANNEX A  
to  
SCHEDULE**

**Principal Terms and Conditions of the  
Subsidiary Loan Agreement**

For the purposes of paragraph 6(a) in Section I of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds onlend to SECBMIH shall be those set forth in paragraphs 1 through 4 of this Annex; and (b) the Subsidiary Loan Agreement shall be entered into on the conditions set forth in paragraphs 5 through 16 of this Annex.

**Terms of Availability**

1. The principal amount shall be made available in Dollars.
2. SECBMIH shall repay such principal amount (including the Front-end Fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of not more than twenty (20) years, inclusive of a grace period of five (5) years.
3. SECBMIH shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at the same rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.
4. SECBMIH shall pay a Front-end Fee at a rate equal to the rate paid by the Borrower to the Bank pursuant to Section 2.03 of the Loan Agreement.

**Conditions**

The Subsidiary Loan Agreement shall include the following principal conditions.

5. SECBMIH shall undertake to: (a) carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social, environmental and safety standards acceptable to the Bank and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (b) without limitation on the foregoing, take all measures necessary to ensure that the Project shall be implemented in accordance with its respective RAP, EMPs and the Safety Management Plan.
6. SECBMIH shall undertake to procure the goods, works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of the Project.



7. SECBMIH shall undertake to enable the Bank and Shanxi to inspect such goods and the sites and works included in the Project, the operation thereof, and any relevant records and documents.
8. SECBMIH shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable to replace or repair such goods.
9. SECBMIH shall undertake:
  - (a) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operation and financial conditions of SECBMIH, including the operations, resources and expenditures related to the Project;
  - (b) have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one Fiscal Year of SECBMIH. The audited financial statements for each period shall be furnished to Shanxi and the Bank not later than six (6) months after the end of the period;
  - (c) enable the Borrower, the Bank and Shanxi to inspect the Project, its operation and any relevant records and documents; and
  - (d) prepare and furnish to the Borrower, the Bank and Shanxi all such information as the Borrower or the Bank or Shanxi shall reasonably request relating to the foregoing.
10. SECBMIH shall undertake to:
  - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Annex B of the Schedule to this Agreement the carrying out of the Project and the achievement of the objectives thereof; and
  - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to Shanxi for its review and consolidation in the Project Reports and submission to the Bank, semi-annual reports within one month after the end of each semester, integrating the results of the monitoring and evaluation activities performed pursuant to clause sub-paragraph (a)

above on the progress achieved in the carrying out of the Project during the period preceding the date of each such report.

11. SECBMIH shall undertake to ensure that the Project is carried out in accordance with the Anti-corruption Guidelines.
12. (a) Except as the Bank shall otherwise agree, SECBMIH shall not incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.4 times its estimated debt service requirements in such year on all its debt, including the debt to be incurred.
  - (b) For the purposes of this paragraph 12:
    - (i) The term “debt” means any indebtedness of SECBMIH maturing by its terms more than one year after the date on which it is originally incurred.
    - (ii) 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.
    - (iii) The term “net revenues” 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 charges and interest and other charges on debt.
    - (iv) 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.

- (v) 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.
  - (vi) The term “reasonable forecast” means a forecast prepared by SECBMIH not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and SECBMIH accept as reasonable and as to which the Bank has notified SECBMIH of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of SECBMIH.
13. Whenever for the purposes of paragraph 12 of this Annex 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.
14. (a) Except as the Bank shall otherwise agree, SECBMIH shall earn, for each of its Fiscal Years after its Fiscal Year ending on December 31, 2012 an annual rate of return on equity not less than 9%.
- (b) Before November 15 in each of its Fiscal Years, SECBMIH shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such Fiscal Year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion.
- (c) If any such review shows that SECBMIH would not meet the requirements set forth in paragraph (a) for its Fiscal Years covered by such review, SECBMIH shall promptly take all necessary measures including, without limitation, adjustments of the levels of its LNG pricing, in order to meet such requirements.
15. SECBMIH shall prepare, according to terms of reference satisfactory to the Bank, and, by April 30 of each Fiscal Year commencing on April 30, 2010, furnish to the Bank for review and comments, its rolling long-term financial plan (including projected income statements, sources and uses of funds and balance sheets covering a period of not less than eight (8) years.

16. Shanxi shall have the right to suspend or terminate the right of SECBMIH to the use of the proceeds of the Loan made available under the Subsidiary Loan Agreement or to obtain a refund of all or any part of the amount of said proceeds then withdrawn upon failure by SECBMIH to perform its obligations under the Subsidiary Loan Agreement.

**ANNEX B to SCHEDULE**

**Performance Indicators**

Project Outcome Indicators	Baseline 2008	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Total amount of CBM/CMM produced and captured in Shanxi annually (million m3)	300		500	1500	2000		Semi-annual project progress reports	Government energy statistics and sector reports	SECBMIH
Total amount of CBM/CMM utilized in Shanxi annually (million m3)	200		300	1000	1500				
<b>Intermediate Outcome Indicators</b>									
The volume of CBM produced annually (million m3)	0		0	15	125	<b>250</b>	Semi-annual project progress reports		SECBMIH
The volume of LNG produced annually (tons)	0		8,000	50,000	100,000	<b>200,000</b>	Semi-annual project progress reports		SECBMIH
The number of staff week trained for both SECBMIH and Shanxi	0	50	100	200	300		Semi-annual project progress reports		SECBMIH
The studies completed and reports produced	NA		draft	final			Semi-annual project progress reports		SECBMIH
New policy and regulations formulated and implemented	NA			draft	final		Semi-annual project progress reports		SECBMIH
CBM/CMM data and information inventory system developed	NA		concept	initial	operational		Semi-annual project progress reports		SECBMIH
SECBMIH's Financial Sustainability <ul style="list-style-type: none"> <li>• Debt service coverage ratio</li> <li>• Rate of return on equity</li> <li>• Ratio of current assets to current liabilities</li> </ul>	NA				1.4	1.4			
						9%			
			No less than 1.1	No less than 1.1		1.1			

