

CONFORMED COPY

LOAN NUMBER B-105-1

Indemnity Agreement
(Yen Loan and Guarantee Agreement)
(Zhejiang Power Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 28, 1995

LOAN NUMBER B-105-1

INDEMNITY AGREEMENT

AGREEMENT, dated March 28, 1995 between PEOPLE'S REPUBLIC OF CHINA (China) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD).

WHEREAS (A) IBRD has agreed to make available to China a loan, under a loan agreement to be entered into between China and IBRD (IBRD Loan Agreement), in the aggregate principal amount in various currencies equivalent to US\$400,000,000 to assist in the financing of the project (the Project) described in Schedule 2 of the IBRD Loan Agreement;

(B) Pursuant to a Loan and Guarantee Agreement (the Dollar Loan Agreement) being entered into herewith between China as borrower, IBRD as partial guarantor, Bank of America National Trust and Savings Association, The Fuji Bank, Limited, Daiwa Overseas Finance Limited, The Norinchukin Bank, Korea First Bank as arrangers and lead managers, The Asahi Bank, Limited, The Dai-Ichi Kangyo Bank, Limited, The Long-Term Credit Bank of Japan, Limited, The Sumitomo Trust & Banking Company, Limited, The Tokai Bank, Limited as expanded lead managers, The Fuji Bank, Limited (Hong Kong Branch) as agent, and The Financial Institutions named in the First Schedule thereto (the Dollar Lenders) as lenders, the Dollar Lenders have agreed to make available to China a loan in the aggregate principal amount of one hundred million Dollars (US\$100,000,000) (the Dollar Loan) to assist in the financing of a portion of the Project;

(C) Pursuant to another Loan and Guarantee Agreement (the Yen Loan Agreement) being entered into herewith among China as borrower, IBRD as partial

guarantor, the Lenders listed therein (the Yen Lenders) as lenders, The Fuji Bank, Limited as agent, The Yasuda Fire and Marine Insurance Company, Limited as lead manager, and Asahi Mutual Life Insurance Company and The Zenshinren Bank as Managers, the Yen Lenders have agreed to make available to China a loan in the aggregate principal amount of five billion Yen (¥5,000,000,000) (the Yen Loan) to also assist in the financing of another portion of the Project;

(D) At the request and with the agreement of China, IBRD has agreed to guarantee the repayment of a portion of the principal amount of the Yen Loan (the IBRD Yen Guarantee) on the terms and conditions set forth in the Yen Loan Agreement;

(E) IBRD has agreed to provide the IBRD Yen Guarantee only on condition that China agree to undertake to make to IBRD prompt payment of all amounts paid by IBRD directly or indirectly in relation to or arising from the IBRD Yen Guarantee and to undertake such other obligations as hereinafter provided; and

(F) In consideration of IBRD's entering into the Yen Loan Agreement and providing the IBRD Yen Guarantee, China has agreed to undertake certain obligations towards IBRD as hereinafter provided.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. IBRD's General Conditions Applicable to Loan and Guarantee Agreements, dated January 1, 1985 (the General Conditions), are hereby incorporated in and constitute an integral part of this Agreement, subject, however, to the following modifications thereto:

(a) the terms "Borrower" or "Guarantor", wherever used in the General Conditions, mean China;

(b) the term "Loan", wherever used in the General Conditions, means the Yen Loan (as said term is defined herein), except that in Sections 2.01 (12), 8.01 and 9.03, the term "Loan" shall mean the IBRD Yen Guarantee and include any other amount payable under this Agreement.

(c) the terms "Loan Agreement" and "Guarantee Agreement", wherever used in the General Conditions, mean this Agreement, except that in Section 9.01 (a) and (b) and Section 9.07 (a) and (c), the terms "Loan Agreement" and "Guarantee Agreement" shall mean this Agreement and the Yen Loan Agreement (as said term is defined herein);

(d) the term "Project", wherever used in the General Conditions, means the Zhejiang Power Development Project as described in Schedule 2 of the IBRD Loan Agreement.

(e) Sections 2.01 (3), (4), (5), (6), (7), (10), (11), (15), and (20), Article III, Article IV, Article V, Article VI, Article VII, the phrase: "but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between IBRD and the Borrower," in the first sentence of Section 9.07 (c), the opening phrase: "Except as provided in Section 6.07," in Section 10.02, and Article XII of the General Conditions are hereby deleted.

Section 1.02. Wherever used in this Agreement, unless otherwise defined or unless the context otherwise requires, the several terms defined in the Preamble to this Agreement and in the General Conditions (subject to the modifications noted above) have the respective meanings herein and therein set forth and the following additional terms have the following meanings:

(a) "Agent", "Business Day", "Drawdown Date", "Guarantee Release Date",

and "Lender" have the same meanings ascribed thereto in the Yen Loan Agreement.

(b) "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 Yen Loan in a manner acceptable to IBRD.

(c) "Guarantee Fee Payment Date" means each of the thirty (30) consecutive semi-annual dates occurring on the anniversary and semi-anniversary of the Drawdown Date of each year, the first (1st) Guarantee Fee Payment Date being the first such date after the Drawdown Date and the thirtieth (30th) and final Guarantee Fee Payment Date being the fifteenth (15th) anniversary of the Drawdown Date; provided that, if there is no such semi-annual date corresponding to the Drawdown Date in the relevant month due to differing lengths of calendar months, then the relevant Guarantee Fee Payment Date shall end on the last day of such relevant month and provided further that if any such date is not a Business Day, the relevant Guarantee Fee Payment Date shall be the next succeeding Business Day unless such succeeding Business Day falls in the next calendar month, in which case the relevant Guarantee Fee Payment Date shall be the immediately preceding Business Day.

(d) "Guarantee Fee Period" means the period commencing on the Drawdown Date and ending on the first (1st) Guarantee Fee Payment Date and each successive period thereafter commencing on the date immediately following the last preceding Guarantee Fee Payment Date and ending on the next succeeding Guarantee Fee Payment Date.

(e) "Project Agreement" means the agreement entered or to be entered into between IBRD and ZPEPC for carrying out the Project.

(f) "Project Beneficiary" or "ZPEPC" means the Zhejiang Provincial Electric Power Company, a state owned enterprise, organized and existing under the laws of the People's Republic of China.

(g) "Special Deposit Account" means the account referred to in Section 3.02 (a) of this Agreement.

(h) "Yen" means the lawful currency of Japan.

ARTICLE II

Indemnity by China to IBRD; Guarantee Fee

Section 2.01. In consideration of IBRD providing the IBRD Yen Guarantee, China hereby: (a) agrees to reimburse IBRD forthwith on demand or as IBRD may otherwise direct for any amount paid by IBRD under the IBRD Yen Guarantee in the currency so paid, or if payment shall have been made in any currency which IBRD shall have purchased with another currency for the purposes of such payment, in such other currency, together with interest thereon at the rate per annum specified by IBRD in respect of such currency, which rate shall be based on IBRD's prevailing borrowing cost in such currency plus the applicable margin over such cost from the date such payment is made by IBRD until such amount is paid; (b) agrees to indemnify IBRD on demand in respect of all actions, proceedings, liabilities, claims, losses, damages, costs and expenses suffered or incurred by IBRD directly or indirectly in relation to or arising out of the IBRD Yen Guarantee; (c) irrevocably authorizes IBRD to comply with any demands and make any payments which may be due from or claimed or made upon IBRD under the IBRD Yen Guarantee (IBRD shall notify China of any such demand, but failure to give any such notice shall in no way affect IBRD's obligation to make payment under the IBRD Yen Guarantee or China's obligation to reimburse or indemnify IBRD pursuant to this Agreement) and agrees that it shall not be incumbent on IBRD to enquire whether or not any such demands are in fact correct or payments are in fact due or whether or not any dispute exists between China and the Agent or the Yen Lenders; and (d) agrees that, in the absence of any manifest and material error, any such demand or payment shall, as between China and IBRD, be conclusive evidence that the demand is properly made and/or payment properly due.

Section 2.02. (a) IBRD may at any time, without thereby discharging, impairing or otherwise affecting any rights, powers and remedies hereby created or conferred upon it by this Agreement, the Yen Loan Agreement, any related agreement or by law: (i) offer or agree to or enter into any agreement for the extension or variation of the IBRD Yen Guarantee; or (ii) offer or give or agree to give any time or other indulgence to any other person from whom it may seek reimbursement in respect of sums paid out by IBRD under the IBRD Yen Guarantee.

(b) Any rights conferred on IBRD by this Agreement shall be in addition to, and not in substitution for or derogation of, any other right which IBRD may at any time have to seek, from China or any other person, reimbursement of or indemnification against payments made or liabilities incurred under the IBRD Yen Guarantee.

(c) IBRD shall not be obliged before taking steps to enforce any rights conferred on it by this Agreement or exercising any of the rights, powers and remedies conferred upon IBRD by this Agreement, the Yen Loan Agreement, any related agreement or by law: (i) to take action or obtain judgement in any court against any other person (including persons from whom it may seek reimbursement in respect of sums paid out under the IBRD Yen Guarantee); or (ii) to enforce or seek to enforce any other rights it may have against China or its rights against any other person.

Section 2.03. Any payment required to be made by China pursuant to the terms of this Agreement shall be:

(a) paid at such places as IBRD shall reasonably request;

(b) made in such manner, and in currencies acquired in such manner, as shall be permitted under the laws applicable to the making of such payment and effecting the deposit of such currencies to the account of IBRD with a depository designated by IBRD for this purpose;

(c) paid without any restrictions of any kind imposed by, or in the territory of, China; and

(d) applied first, to pay all interest and other charges due to IBRD and second, after such interest and other charges are paid, to pay all principal then due.

Section 2.04. In consideration of IBRD providing the IBRD Yen Guarantee, China shall pay directly to IBRD a guarantee fee on each Guarantee Fee Payment Date for the Guarantee Fee Period then ending in accordance with the payment schedule set forth in the Schedule to this Agreement; provided, that in the event (i) (a) any portion of the Yen Loan has not been disbursed on the Drawdown Date, or (b) any portion of the Yen Loan has been prepaid, the portion of the guarantee fee applicable to such undisbursed or prepaid Yen Loan amount shall be proportionately reduced for the relevant Guarantee Fee Period set forth in the Schedule to this Agreement, or (ii) any Lender exercises the option to release the IBRD Guarantee under Clause 3.08 of the Yen Loan Agreement, the portion of the guarantee fee applicable to such released amount shall be reduced for the relevant Guarantee Fee Period set forth in the Schedule to this Agreement by the amount calculated based on the formula under Clause 3.08 of the Yen Loan Agreement. These reductions of the guarantee fee shall be applied to all the subsequent guarantee fee payments thereafter until maturity of the Yen Loan. In the event any Lender exercises the guarantee release option under Section 3.08 of the Yen Loan agreement, the portion of the guarantee fee applicable to such released amount shall after the Guarantee Release Date be paid to the Agent for the account of such Lender in accordance with the provisions of Section 3.08 of the Yen Loan Agreement.

ARTICLE III

Other Covenants

Section 3.01. China declares its commitment to the objectives of the Project as set forth in Schedule 2 to the IBRD Loan Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement or the IBRD Loan Agreement, shall cause ZPEPC to perform in accordance with the provisions of the Project Agreement all the obligations of ZPEPC therein set forth, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ZPEPC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. The purpose of the Yen Loan is to partly finance Eligible Expenditures under the Project. For that purpose China shall: (a) upon receipt of the proceeds of the Yen Loan, deposit the same in a special deposit account to be operated by China exclusively for the purposes of the Project; and (b) make available the proceeds of the Yen Loan to ZPEPC for the purposes of the Project under onlending arrangements satisfactory to IBRD. The Special Deposit Account shall be opened in a bank and on terms and conditions, satisfactory to IBRD, including appropriate protection against set-off, seizure or attachment.

Section 3.03. (a) China shall disburse the proceeds of the Yen Loan deposited in the Special Deposit Account only to the Project Beneficiary to meet Eligible Expenditures, as they are actually incurred and which have not been financed out of the funds provided by IBRD under the IBRD Loan Agreement or the Dollar Lenders under the Dollar Loan Agreement, in the manner agreed with IBRD.

(b) For each payment made by China out of the Special Deposit Account, China shall, at such times as IBRD shall reasonably request, furnish to IBRD such documents and other evidence showing that such payment out of the proceeds of the Yen Loan was made exclusively for Eligible Expenditures.

(c) If IBRD shall have determined at any time that any payment out of the Special Deposit Account was not made on account of any Eligible Expenditure or was not justified by the evidence furnished to IBRD, China shall, promptly upon notice from IBRD, deposit into such account out of which the payment was made (or, if China cannot or fails to do so, prepay to the Agent for the account of the Yen Lenders in accordance with the terms of the Yen Loan Agreement) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Any such deposits made hereunder shall be utilized for the purpose indicated in Section 3.02 hereof.

(d) If IBRD shall have determined at any time that any amount outstanding in the Special Deposit Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, upon notice from IBRD, prepay to the Agent for the account of the Yen Lenders such outstanding amount in accordance with the terms of the Yen Loan Agreement.

Section 3.04. China shall ensure that: (a) the goods and consultants' services required for the Project and to be financed out of the proceeds of the Yen Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and competence of the parties rendering them; and (b) such goods and services shall be used exclusively in the carrying out of the Project.

Section 3.05. China shall: (a) have the Special Deposit Account for each fiscal year of China audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to IBRD; (b) furnish to IBRD as soon as available, but in any case not later than six months after the end of each such year: (i) certified copies of the said accounts for such year as so audited, and (ii) the report of such audit by said auditors of such scope and in such detail as IBRD shall have reasonably requested; and (c) furnish to IBRD such other information concerning the said account, as well as the audit thereof, as IBRD shall from time to time reasonably request.

Section 3.06. IBRD and China 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 the Project shall be carried out by ZPEPC pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Remedies of IBRD

Section 4.01. If China fails to make any payments due to IBRD under this Agreement or to perform any of its obligations under this Agreement, and such failure is continuing, IBRD may, by notice to China, suspend or cancel in whole or in part the right of China to make withdrawals under: (a) the IBRD Loan Agreement; and (b) any other loan or credit agreement between China and IBRD.

ARTICLE V

Effective Date

Section 5.01. This Agreement shall come into force and effect upon signature.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. The Minister of Finance of China is hereby designated as representative of China for the purposes of Section 11.07 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 6.01 above:

For China:

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

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For IBRD:

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:

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

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be

signed in their respective names as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Jin Renqing
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hiroo Fukui
Vice President
Cofinancing and Financial
Advisory Services

SCHEDULE

Guarantee Fee Period	Guarantee Fee Amount (Japanese Yen)
1st	1,575,336
2nd	1,614,720
3rd	1,655,087
4th	1,696,465
5th	1,738,876
6th	1,782,348
7th	1,826,907
8th	1,872,580
9th	1,919,394
10th	1,967,379
11th	2,016,563
12th	2,066,977
13th	2,118,652
14th	2,171,618
15th	2,225,909
16th	2,281,556
17th	2,338,595
18th	2,397,060
19th	2,456,987
20th	2,518,411
21st	2,581,372
22nd	2,645,906
23rd	2,380,952
24th	2,083,333
25th	1,785,714
26th	1,488,095
27th	1,190,476
28th	892,857
29th	595,238
30th	297,619