

CONFORMED COPY

CREDIT NUMBER 3034 VN

Project Agreement

(Transmission, Distribution and Disaster Reconstruction Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ELECTRICITY OF VIETNAM

HO CHI MINH CITY POWER COMPANY

POWER COMPANY NO. 1

and

POWER COMPANY NO. 2

Dated November 25, 1998

CREDIT NUMBER 3034 VN

PROJECT AGREEMENT

AGREEMENT, dated November 25, 1998 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), ELECTRICITY OF VIETNAM (EVN), HO CHI MINH CITY POWER COMPANY (HCMCPC), POWER COMPANY NO. 1 (PC1) and POWER COMPANY NO. 2 (PC2).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Socialist Republic of Vietnam (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to one hundred forty four million four hundred thousand Special Drawing Rights (SDR 144,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that HCMCPC, PC1 and PC2 (collectively, the Power Companies) and EVN agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by subsidiary loan agreements to be entered into between the Borrower and each of EVN, HCMCPC, PC1 and PC2, proceeds of the Credit provided for under the Development Credit Agreement will be made available to EVN and the Power Companies on the terms and conditions set forth in said subsidiary loan agreements; and

WHEREAS EVN and the Power Companies, in consideration of the Association's

entering into the Development Credit Agreement with the Borrower, have 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 Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) EVN and the Power Companies each declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, EVN shall carry out Parts A and B of the Project, HCMCPC shall carry out Parts C and G(2) of the Project, PC1 shall carry out Parts D(1) and D(2) of the Project and PC2 shall carry out Parts D(3) and G(1) of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, engineering, environmental, financial, public utility, resettlement and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association shall otherwise agree, EVN and each Power Company shall carry out its Respective Parts of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. (a) EVN and each Power Company shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement and its Respective Parts of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, EVN and each Power Company shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose by the Association and EVN or such Power Company, as the case may be, a plan for the future operation of its Respective Parts of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with EVN or such Power Company on said plan.

Section 2.04. EVN and each Power Company shall duly perform all its obligations under its respective Subsidiary Loan Agreement. Except as the Association shall otherwise agree, none of EVN or the Power Companies shall take

or concur in any action which would have the effect of assigning, amending, abrogating or waiving its respective Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) EVN and each Power Company shall, at the request of the Association, exchange views with the Association with regard to the progress of its Respective Parts of the Project, the performance of its obligations under this Project Agreement and under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) EVN and each Power Company shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of its Respective Parts of the Project, the accomplishment of the purposes of the Credit or the performance by EVN or such Power Company of its obligations under this Project Agreement and under its respective Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of EVN and the Power Companies

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

Section 3.02. EVN and each Power Company shall 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 public utility practices.

Section 3.03. EVN and each Power Company shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. Except as the Association shall otherwise agree, none of EVN or the Power Companies shall, except in the ordinary course of its business, sell, lease, transfer, assign or otherwise dispose of any of its property or assets which are required for the efficient conduct of its operations or the carrying out of its Respective Parts of the Project.

Section 3.05. EVN and each Power Company shall: (a) maintain its existence and right to carry on its operations and shall promptly take all measures necessary to acquire, maintain, renew or otherwise exercise any and all rights (including, without limitation, land use rights), powers, privileges and franchises required for the proper conduct of its operations and the prompt carrying out of its obligations under this Project Agreement and the Subsidiary Loan Agreement to which it is a party; and (b) not amend, suspend or repeal any provision of its respective Charter or make any change in its structure, organization, powers or responsibilities which may materially and adversely affect its ability to perform any of its obligations under this Project Agreement or the operation of the facilities established under its Respective Parts of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) EVN and each Power Company shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its

operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) EVN and each Power Company shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements, including a summary of operations, resources and expenditures related to the Project) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available but in any case not later than six (6) months after the end of each such year, (A) certified copies of said financial statements, reflecting the records and accounts referred to in paragraph (a) above, 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 Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. (a) (i) Except as the Association shall otherwise agree, each of EVN, HCMCPC, PC1 and PC2 shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1997, funds from internal sources equivalent to not less than 30% of the annual average of its capital expenditures incurred, or expected to be incurred, for said year, the previous fiscal year and the following fiscal year.

- (ii) Before March 31 in each of its fiscal years, each of EVN, HCMCPC, PC1 and PC2 shall, on the basis of forecasts prepared by it and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a)(i) in respect of such year and the next following fiscal year and shall furnish to the Association a copy of such review upon its completion.
- (iii) If any such review shows that EVN, HCMCPC, PC1 or PC2 would not meet the requirements set forth in paragraph (a)(i) for its fiscal years covered by such review, EVN, HCMCPC, PC1 or PC2, as the case may be, shall promptly take all necessary measures on its part (including, without limitation, adjustments of the structure or levels of its tariffs with the approval of the Borrower, if required) in order to meet such requirements.

(b) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working

capital other than cash; and

- (B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
- (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 "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
 - (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
 - (v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
 - (vi) 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.
 - (vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.
 - (viii) Whenever for the purposes of this Section 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 Association.

Section 4.03. (a) Except as the Association shall otherwise agree, none of EVN, HCMCPC, PC1 or PC2 shall incur any debt unless a reasonable forecast of its revenues and expenditures shows that the estimated net revenues of EVN, HCMCPC, PC1 or PC2, as the case may be, for each fiscal year during the term of the debt to be incurred shall be at least 2.0 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 Section:

- (i) The term "debt" means any indebtedness 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 EVN, HCMCPC, PC1 or PC2, as the case may be, not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and EVN or the Power Company preparing such forecast accept as reasonable and as to which the Association has notified EVN or such Power Company 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 EVN, HCMCPC, PC1 or PC2, as the case may be.
- (vii) Whenever for the purposes of this Section 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 Association.

Section 4.04. Each of EVN, HCMCPC, PC1 and PC2 shall prepare and furnish to the Association for its review and comment, by September 30 of each year, commencing September 30, 1998: (i) its proposed budget for its next fiscal year; and (ii) a rolling financial plan containing, inter alia, income statements, sources and uses of funds, and balance sheets for each of the next three years.

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 Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of EVN and the Power Companies thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify EVN and the Power Companies of this event.

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 addresses 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 Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Electricity of Vietnam:

18 Tran Nguyen Han Street
Hanoi
Socialist Republic of Vietnam

For Ho Chi Minh City Power Company:

12 Nguyen Thi Minh Khai Street
District 1
Ho Chi Minh City
Socialist Republic of Vietnam

For Power Company No. 1:

20 Tran Nguyen Han Street
Hanoi
Socialist Republic of Vietnam

For Power Company No. 2:

72 Hai Ba Trung Street
District 1
Ho Chi Minh City
Socialist Republic of Vietnam

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of: (a) EVN, may be taken or executed by its Vice General Director, or by such other person or persons as such Vice General Director shall designate in writing; (b) HCMCPC, may be taken or executed by its General Director, or by such other person or persons as such General Director shall designate in writing; (c) PC1, may be taken or executed by its Deputy General Director, or by such other person or persons as such Deputy General Director shall designate in writing; and (d) PC2, may be taken or executed by its General Director, or by such other person or persons as such General Director shall designate in writing; and EVN, HCMCPC, PC1 or PC2, as the case may be, shall furnish to the Association 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 Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Andrew Steer

Authorized Representative

ELECTRICITY OF VIETNAM

By /s/ Dinh Quang Tri

Authorized Representative

HO CHI MINH CITY POWER COMPANY

By /s/ Le Minh Hoang

Authorized Representative

POWER COMPANY NO. 1

By /s/ Do Van Loc

Authorized Representative

POWER COMPANY NO. 2

By /s/ Nguyen Van Giau

Authorized Representative

SCHEDULE

Implementation Program

A. Power Development Program and Bulk Supply Tariffs

1. EVN shall:

a. no later than December 31, 1998, prepare and furnish to the Association for its review and comment EVN's proposed ten-year power development program and associated five-year implementation plan and financing plan for the efficient expansion and development of its power generation and transmission systems (Power Development Program); and

b. no later than December 31 in each succeeding year, submit to the Association for its review and comment: (i) a report of the progress in the implementation of the Power Development Program during the preceding 12 month period; (ii) its proposed implementation program for the succeeding five years; and (iii) a review of its policy and levels of its electricity tariffs, including proposed adjustments.

2. EVN shall:

a. no later than January 1, 1999, introduce accounting procedures satisfactory to the Association for the determination of cost-based bulk supply tariffs for its distribution companies;

b. prepare and furnish to the Association no later than June 30 in each year a report on the levels of such tariffs as so determined; and

c. implement a phased cost-based bulk supply tariff for wholesale electricity sales to its distribution companies such that the tariff charged will reach at least 85% of the bulk supply tariff as so determined by 1999, and 100% of such tariff by 2000.

B. Transmission and Generation Functions.

1. EVN shall:

a. no later than December 31, 1998, prepare and submit to the Association for review and comment an action plan for the separation of its transmission and generation functions and the creation of its transmission function as a separate profit center and, thereafter, implement said plan taking

into account said comments and in accordance with a timetable acceptable to the Association;

b. no later than December 31, 1999, establish its transmission function as a separate profit center in a manner satisfactory to the Association.

2. EVN shall:

a. no later than September 30, 1998, with the assistance of the Power Companies, issue revised corporate charters for each of HCMCPC, PC1 and PC2, acceptable to the Association, which charters shall provide for increased operational and management autonomy for the Power Companies;

b. adopt and implement a financial and commercial structure acceptable to the Association for each of its power distribution companies by January 1, 1999;

c. no later than April 1, 1998, create a distinct staff function for distribution management within EVN at the level of deputy director general, with overall responsibility for its power distribution companies; and

d. no later than January 1, 1999, or such later date as the Association may agree, prepare and adopt a plan, satisfactory to the Association, for the equitization of one or more operating units of the power distribution companies in a manner acceptable to the Association.

C. Resettlement and Rehabilitation of Affected Persons.

1. Without limitation upon the provisions of Section 2.01(a) of this Agreement, and except as the Association shall otherwise agree:

a. EVN shall carry out the resettlement and rehabilitation of Affected Persons under Part A of the Project in accordance with the Transmission System (500kV) RAP, in a manner satisfactory to the Association;

b. HCMCPC shall carry out the resettlement and rehabilitation of Affected Persons under Part C of the Project in accordance with the Transmission System (220kV) RAP, in a manner satisfactory to the Association;

c. PC1 shall carry out the resettlement and rehabilitation of Affected Persons under Part D(1) of the Project in accordance with the Distribution System (Halong) RAP and under Part D(2) of the Project in accordance with the Distribution System (Vinh) RAP, in each case in a manner satisfactory to the Association; and

d. PC 2 shall carry out the resettlement and rehabilitation of Affected Persons under Part D(3) of the Project in accordance with the Distribution System (Vung Tau) RAP, in a manner satisfactory to the Association.

D. Environmental Impact Mitigation.

1. EVN shall carry out Part A of the Project in accordance with measures described in the Environmental Impact Analysis and, without any limitation thereto, shall take timely action to ensure that any adverse environmental impact of Part A of the Project is effectively mitigated in a manner satisfactory to the Association.

E. Demand Side Management

1. EVN shall, no later than April 1, 1998, under terms of reference satisfactory to the Association, establish a DSM cell with competent staff in adequate numbers.

2. EVN shall assist MOI in carrying out Part F of the Project in accordance with a time-bound action plan acceptable to the Association.

F. Monitoring and Reporting

1. Without limitation to Section 9.07 of the General Conditions, EVN and each Power Company shall:

a. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of its Respective Parts of the Project and the achievement of the objectives thereof;

b. prepare, under terms of reference satisfactory to the Association, and furnish to the Association quarterly, no later than ten (10) days after the end of each calendar quarter, and annually, on or about December 31 in each year, commencing December 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph a. above, on the progress achieved in the carrying its Respective Parts of the Project during the period preceding the date of said report, including, with respect to Part F of the Project, energy savings estimates (both kilowatts and kilowatt-hours saved) and setting out the measures recommended to ensure the efficient carrying out of its Respective Parts of the Project and the achievement of the objectives thereof during the period following such date; and

c. review with the Bank, by February 28 in each year, commencing February 28, 1999, or such later date as the Association shall request, the annual report referred to in sub-paragraph b. above, and, thereafter, take all measures required to ensure the efficient completion of its Respective Parts of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

