Guarantee Agreement

(Power System Development Project - III)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 2, 2006
GUARANTEE AGREEMENT

AGREEMENT, dated May 2, 2006 between INDIA, acting by its President (the Guarantor), and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and POWERGRID Corporation of India Limited (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project; and

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan equal to four hundred million dollars ($400,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan, and to undertake such other obligations as provided in this Agreement;

WHEREAS the Guarantor, in consideration of the Bank’s entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

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 for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004) (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement and in the Preamble to and Section 1.02 of the Loan Agreement have the respective meanings therein set forth.
ARTICLE II

Guarantee

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor shall take all such measures as may be necessary or required in order to allow the Borrower to maintain its accounts receivable at a level not exceeding an amount equivalent to the proceeds of its transmission and other services for the three preceding months.

ARTICLE IV

Representatives of the Guarantor; Addresses

Section 4.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.
Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Secretary to the Government of India  
Department of Economic Affairs  
Ministry of Finance  
New Delhi, India

Cable address:  Telex:  Facsimile

ECOFAIRS  953-3166175  91-11-2309-2511
New Delhi  91-11-2309-2477  91-11-2309-3133

For the Bank:

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

Cable address:  Telex:  Facsimile

INTBAFRAD  248423 (MCI); or (202) 477-6391
Washington, D.C.  64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INDIA

By

/s/ Madhusudan Prasad
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

/s/ Michael F. Carter
Country Director, India