
LOAN NUMBER 2510-IND

LOAN AGREEMENT
(Ordinary Operations)

(National Power Grid Development Investment Program – Tranche 2)

between

POWER GRID CORPORATION OF INDIA LIMITED

and

ASIAN DEVELOPMENT BANK

DATED 27 MARCH 2009

LAL:IND 39630

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 27 March 2009 between POWER GRID CORPORATION OF INDIA LIMITED (hereinafter called the "Borrower") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) by a framework financing agreement dated 29 February 2008 between ADB, the Borrower, and India (hereinafter called the "Guarantor"), ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the National Power Grid Development Investment Program;

(B) by a periodic financing request dated 15 January 2009 submitted by the Borrower, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) the Loan is to be guaranteed by the Guarantor under the terms of a Guarantee Agreement of even date herewith; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources, relying on terms of the periodic financing request dated 15 January 2009, and upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the "Loan Regulations"):

(a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

(b) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(d) Section 7.07 (c) is deleted.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "CERC" means the Central Electricity Regulatory Commission established in accordance with the Guarantor's Electricity Act, 2003, as amended from time to time;

(b) "CPTD" means the compensation plan for temporary damages prepared by the Borrower for the Project in accordance with the RF;

(c) "Companies Act, 1956" means the Companies Act, 1956 (1 of 1956) of the Guarantor, as amended from time to time;

(d) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2007, as amended from time to time);

(e) "EARF" means the environmental assessment and review framework prepared in accordance with ADB's *Environment Policy* (2002) and ESPP and set out in Schedule 5 to the FFA;

(f) "EMP" means the environmental management plan prepared for the Project and set out in the IEE;

(g) "ESPP" means the Environmental and Social Policy & Procedures, (2005, as amended from time to time) of the Borrower;

(h) "FFA" means the framework financing agreement dated 29 February 2008 between ADB, the Borrower, and the Guarantor with respect to the Facility;

(i) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(j) "Goods" means equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(k) "Guarantee Agreement" means the agreement of even date herewith between the Guarantor and ADB, referred to in recital (C) of this Loan Agreement;

(l) "HVDC" means high voltage direct current;

(m) "IEE" means the initial environmental examination prepared for the Project in accordance with the EARF;

(n) "IPDF" means the indigenous peoples development framework prepared in accordance with ADB's *Policy on Indigenous Peoples* (1998) and ESPP and set out in Schedule 5 to the FFA;

(o) "Investment Program" means the National Power Grid Development Investment Program, as more fully described in Schedule 1 to the FFA;

(p) "kV" means kilovolt;

(q) "PFR" means the periodic financing request submitted or to be submitted by the Borrower, for the purposes of each loan under the Facility, and for the purpose of this Loan Agreement means the periodic financing request dated 15 January 2009;

(r) "PMU" means the program management unit established for the Investment Program by the Borrower in accordance with paragraph 1 of Schedule 5 to this Loan Agreement;

(s) "Procurement Guidelines" means ADB's Procurement Guidelines (2007, as amended from time to time);

(t) "Procurement Plan" means the procurement plan for the Project dated 23 February 2009 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(u) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Borrower;

(v) "RF" means the resettlement framework prepared in accordance with ADB's *Involuntary Resettlement Policy* (1995) and ESPP and set out in Schedule 5 to the FFA;

(w) "RP" means the resettlement plan prepared for the Project in accordance with the RF; and

(x) "Works" means construction or civil works to be financed out of the proceeds of the Loan, and including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of two hundred million dollars (\$200,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 February and 1 August in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and

outstanding from a Floating Rate to a Fixed Rate, or vice versa;
and

- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The Goods, Works and consulting services to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works and consulting services shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2014 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and power sector development practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall make available, promptly as needed, the funds, facilities, services, land, and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities.

Section 4.03. (a) In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

(b) The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to both ADB and the Borrower. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 4.04. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.05. (a) The Borrower shall (i) have its accounts and financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (ii) furnish to ADB, as soon as available but in any event not later than six (6) months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement, all in the English language; and (iii) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements and its financial affairs from time to time with the auditors appointed by the Borrower pursuant to Section 4.05(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested

by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.06. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents.

Section 4.07. The Borrower shall ensure that the Project facilities are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, maintenance, and operational practices.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations:

(a) Any change shall have been made in the Memorandum and Articles of Association of the Borrower, which may in the reasonable opinion of ADB, materially and adversely affect the financial condition, operations, or ability of the Borrower to perform any of its obligations under this Loan Agreement.

(b) A subsidiary or any other entity shall have been created, acquired, or taken over by the Borrower, if such creation, acquisition or taking over, in the reasonable opinion of ADB, may materially and adversely affect the conduct of its business or its financial condition or the efficiency of its management and personnel or the carrying out of the Project.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. Each of the Executive Director (Corporate Planning), the General Manager (Corporate Planning), and the Additional General Manager (Corporate Planning) of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Power Grid Corporation of India Limited
'SAUDAMANI' Plot No. 2, Sector-29
Gurgaon – 122001
Haryana

Facsimile Number:

(91) 124-2571959

For ADB


Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

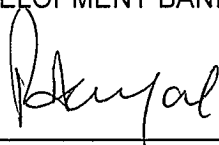
(632) 636-2444
(632) 636-2338.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

POWER GRID CORPORATION OF
INDIA LIMITED

By 
S.K. CHATURVEDI
Chairman and Managing Director

ASIAN DEVELOPMENT BANK

By 
PRATIMA DAYAL
Officer-in-Charge
India Resident Mission

SCHEDULE 1**Description of the Project**

1. The objective of the Investment Program is to enhance transmission network reliability and efficiency through expansion and augmentation of the national transmission grid.
2. As a part of the Investment Program, the Project aims to deliver bulk power generated from hydro power stations in the north-eastern region to the power deficit areas of the northern and the western region through (i) construction of about 1,800km of ± 800 kV HVDC transmission systems from Biswanath Chariyali to Agra including 800kV converting and inverting stations at both ends; and (ii) construction of 400kV connecting transmission lines at Biswanath Chariyali for transfer of power from various power plants in the north-eastern region.
3. The Project shall consist of select contract packages, as more fully described in the PFR.
4. The Project is expected to be completed by 31 December 2013.

SCHEDULE 2**Amortization Schedule****(National Power Grid Development Investment Program – Tranche 2)**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
1 Aug 2014	0.827816
1 Feb 2015	0.869207
1 Aug 2015	0.912667
1 Feb 2016	0.958301
1 Aug 2016	1.006216
1 Feb 2017	1.056526
1 Aug 2017	1.109353
1 Feb 2018	1.164820
1 Aug 2018	1.223061
1 Feb 2019	1.284214
1 Aug 2019	1.348425
1 Feb 2020	1.415846
1 Aug 2020	1.486639
1 Feb 2021	1.560971
1 Aug 2021	1.639019
1 Feb 2022	1.720970
1 Aug 2022	1.807019
1 Feb 2023	1.897369
1 Aug 2023	1.992238
1 Feb 2024	2.091850
1 Aug 2024	2.196442
1 Feb 2025	2.306264
1 Aug 2025	2.421578
1 Feb 2026	2.542657
1 Aug 2026	2.669789
1 Feb 2027	2.803279

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
1 Aug 2027	2.943443
1 Feb 2028	3.090615
1 Aug 2028	3.245146
1 Feb 2029	3.407403
1 Aug 2029	3.577773
1 Feb 2030	3.756662
1 Aug 2030	3.944495
1 Feb 2031	4.141720
1 Aug 2031	4.348806
1 Feb 2032	4.566246
1 Aug 2032	4.794558
1 Feb 2033	5.034286
1 Aug 2033	5.286000
1 Feb 2034	5.550311
Total	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be

Schedule 2

determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called "the Table"). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table).

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, consulting services, if any, and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Retroactive Financing

5. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with procurement of equipment and civil works, subject to a maximum amount equivalent to 20 percent of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (National Power Grid Development Investment Program – Tranche 2)			
CATEGORY			ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing \$ Category	Percentage of ADB Financing from the Loan Account
1	Works	1,000,000	100 percent of total expenditure claimed*
2	Equipment	184,000,000	100 percent of total expenditure claimed*
3	Unallocated	15,000,000	
	Total	200,000,000	

*Excluding taxes and duties imposed within India

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

General

1. All Goods and Works, and consulting services, if any, to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.

Conditions for Award of Contracts

6. The Borrower shall not award any Works contract in respect of the Project unless the related RP, provisional CPTD, IEE with EMP, and environmental impact assessment, if applicable, are submitted to ADB.

Selection of Consulting Services

7. In the event, any consulting services are financed out of the proceeds of the Loan, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services unless otherwise agreed by ADB, and set forth in the Procurement Plan.

Industrial or Intellectual Property Rights

8. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

9. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

10. All contracts procured under international competitive bidding procedures and contracts for consulting services, if any, shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Implementation Arrangements

1. The Borrower has set up a PMU at its headquarters headed by an Executive Director (Corporate Planning). The PMU, through the related functional departments of the Borrower, shall be responsible for processing, appraising, and implementing the Project covering, *inter alia*, the development and completion of technical reports, feasibility studies, preliminary design reports, detailed design reports, environmental assessment reports, resettlement and indigenous peoples development plans, as applicable, and to ensure compliance with the laws, regulations, and policies of the Guarantor, relevant States, and ADB.

2. The Borrower's additional general managers/deputy general managers shall be responsible for construction and commissioning of the Project under their respective jurisdictions, and shall report to their respective regional heads. The regional heads shall facilitate submission of the monthly progress reports to the management of the Borrower, who shall review the Project every quarter. The PMU shall maintain regular consultations with other funding agencies for implementation of the Project.

Eligibility Criteria

3. The Borrower shall ensure that the Project is at all times in conformity with the criteria set out in Schedule 4 to the FFA.

Environment

4. The Borrower shall ensure that the Project and Project facilities are assessed, designed, implemented, constructed, operated, maintained, and monitored in accordance with all applicable environmental laws, rules, and regulations of the Guarantor, relevant States, ADB's *Environment Policy (2002)*, ESPP, IEE, environmental impact assessment (if applicable), and EARF.

5. The Borrower shall ensure that (i) the EMP and the mitigation measures included therein, as specified in the IEE, environmental impact assessment, and EARF, as applicable, are properly and promptly implemented; (ii) the EMP and mitigation measures included therein are updated at the engineering design stage and incorporated into the bidding documents and civil works / supply contracts; (iii) any adverse impact on the environment that may arise from Project implementation is promptly mitigated or minimized in accordance with the EMP; (iv) any major accidents, including safety breaches, violation of environmental standards, and corrective measures taken in respect thereof, are reported forthwith to ADB; (v) reports on the implementation of the EMP are submitted to ADB at least semi-annually, and that ADB is allowed to conduct annual environmental reviews; and (vi) reports and information are provided to ADB on request to enable it to verify that the goods and services financed out of the proceeds of the Loan have been produced in a responsible manner with a view to resource efficiency, waste minimization, and other environmental considerations.

6. The Borrower shall ensure that the Project and/or Project facilities are not located within national parks, wild and planted forests, and wildlife sanctuaries, unless prior environmental clearances are obtained from the relevant government agencies, and that the monuments of cultural or historical importance are avoided.

Land Availability and Resettlement

7. The Borrower shall, subject to compliance with RF, RP, and CPTD, as agreed with ADB, and in accordance with all applicable laws, regulations, and policies of the Guarantor, and the relevant State, acquire or make available the land and rights to land free from any encumbrances, and clear the utilities, trees and any other obstruction from such land by providing adequate compensation and assistance required for commencement of construction activities in accordance with the schedule agreed under the related civil works contracts.

8. The Borrower shall ensure that land acquisition and resettlement is undertaken in accordance with applicable laws, regulations and policies of the Guarantor, the relevant State, ADB's *Involuntary Resettlement Policy* (1995), ESPP, as well as in accordance with the RF, RP, and CPTD for the Project.

9. The Borrower shall (i) prepare and implement RP for the Project if it entails permanent losses, and CPTD if the impact is only temporary losses, and update these after detailed design; and (ii) disclose the RP and CPTD to affected persons in a form and language easily comprehended by the affected persons prior to submission to ADB for review.

10. The Borrower shall ensure that prior to commencement of civil works under the Project, (i) full compensation in accordance with the related RP is paid to the affected persons such that their living standards are not adversely affected; and (ii) resettlement assistance, grievance redress mechanisms, and monitoring systems are fully implemented. The Borrower shall implement additional activities, such as income generating programs, within eighteen (18) months of the commencement of civil works.

11. The Borrower shall submit progress and completion reports on land acquisition and resettlement, if undertaken, under the quarterly progress reports for the Project. In addition, the Borrower shall forward external monitoring report to ADB on a semi-annual basis for review.

12. Prior to any land acquisition and resettlement, if any, for the Project, the Borrower shall ensure that RP and CPTD, including their updates, based on consultation with the affected persons are submitted to ADB for its approval and uploading on ADB's website.

13. The Borrower shall ensure that essential public infrastructure, which may be affected by land acquisition and resettlement, if any, is replaced as appropriate in an expeditious manner in accordance with the RP.

Schedule 5

14. The Borrower shall ensure that construction contracts contain binding requirements for contractors upon completion of construction to fully reinstate pathways, other local infrastructures, and agricultural land to at least their pre-Project condition; and a provision is made for adequate recording of the condition of roads, agricultural land and other infrastructure prior to transport of material and commencement of construction.

15. In the event irrigation supplies are disrupted and affected farmers experience losses, the Borrower shall ensure that a provision will be made for independent valuation of the losses and timely compensation in respect thereof.

16. The Borrower shall ensure timely provision of budget for land acquisition, resettlement, and other activities outlined in the RP, and shall meet any unforeseen obligations in excess of the RP budget estimate in order to satisfy the requirements of the RP.

17. Within three (3) months of the Effective Date, the Borrower shall engage an independent external expert/agency, acceptable to ADB, for monitoring and verifying the implementation of the RP, and providing to ADB, through the Borrower, quarterly monitoring and evaluation reports in accordance with the RP.

18. Within three (3) months of the Effective Date, the Borrower shall establish a grievance redress committee with representation from all the stakeholders to address any grievances from affected persons concerning resettlement and other social issues in a timely manner.

Indigenous Peoples

19. In the event of any significant or related impacts on indigenous peoples, the Borrower shall prepare and implement an indigenous peoples development plan in accordance with IPDF, ADB's *Policy on Indigenous Peoples* (1998), the applicable law, regulation, and policy of the Guarantor, and the relevant State. In the event of non-significant impact on indigenous peoples, the Borrower shall comply with the requirements set out in the RP or CPTD.

Execution of Civil Works Contracts

20. The Borrower shall ensure that subsequent to award of civil works contract in respect of the Project, no civil works are started by the contractor unless the applicable provisions of the RF, RP, CPTD, EARF and EMP, as approved by ADB, have been complied with.

21. The Borrower shall cause the contractors to undertake detailed survey of the affected persons during transmission line alignment finalization under the Project. The Borrower shall prepare provisional CPTD which meet ADB's requirements, based upon the detailed design information during the survey carried out by civil work contractors. The Borrower shall submit to ADB for approval revised CPTD progressively during the implementation of the related civil work.

22. Any changes to the location, land alignment, or environment impacts on account of detailed designs of the Project shall be subject to prior approval by ADB in accordance with the Project selection criteria and procedures included in Schedule 4 of the FFA, before commencement of civil works for transmission lines under the Project.

Labor Standards

23. The Borrower shall ensure that for procurement of Goods, Works, and consulting services, the contractors, subcontractors and consultants will comply with the applicable labor legislations of the Guarantor, and the relevant States, (e.g. safe working conditions, etc.), as well as with the core labor standards: (i) elimination of force or compulsory labor; (ii) abolition of child labour; (iii) elimination of discrimination in respect of employment; and (iv) freedom of association.

Financial; Others

24. The Borrower shall ensure that its financial accounts are maintained in accordance with Indian GAAP i.e. accounting standards issued by the Institute of Chartered Accountants of India, and consistently applied, as amended from time to time. The Borrower shall keep ADB intimated of any changes in accounting practices.

25. In addition to the requirements of Section 4.05 of the Loan Agreement, the Borrower shall continue the existing practice of engaging independent chartered accountants as statutory auditors to audit its annual financial statements and annual Project accounts, together with the memorandum on issues identified during the audit process.

26. The Borrower shall ensure that -

- (i) it maintains its accounts receivable at a level not exceeding an amount equivalent to the income proceeds of its transmission services for the preceding three (3) months of billable amount as allowed by CERC;
- (ii) it obtains irrevocable letters of credit from the state electricity boards and other beneficiaries, in an aggregate amount based on average monthly billings of the previous financial year, as deemed acceptable by the Borrower and as allowed by CERC;
- (iii) it maintains at all times a debt-equity ratio of 80:20, and a self-financing ratio of at least 20% from 2007 onwards;
- (iv) it exercises, *inter alia*, its rights promptly to effect the reduction/stoppage in supply under the commercial agreements with state electricity boards or other beneficiaries as well as under the tripartite agreements with the Government, state governments and Reserve Bank of India; and
- (v) it forwards to ADB, with each set of audited financial statements, a compliance certificate signed by its statutory auditors and/or director-finance setting out computations as to compliance with the financial covenants described above.

27. The Borrower shall comply with all requirements of Clause 49 of the listing agreement of the Security Exchange Board of India relating to corporate governance.

28. This Loan Agreement is subject to the continuing assurances of the Guarantor that -

- (i) the Borrower shall continue to function as the central transmission utility under the (Indian) Electricity Act 2003, as amended from time to time, provide transmission services, and facilitate private sector participation in power transmission as per its directives from time to time;
- (ii) it shall maintain the board of directors of the Borrower in accordance with statutory requirements regarding corporate governance; and
- (iii) it shall continue to support the autonomy of the Borrower with respect to its commercial, administrative, and operational activities.

29. The Borrower shall ensure that all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the Borrower, and all contractors, suppliers, consultants, and other service providers as they relate to the Project. The Borrower shall allow and assist ADB's representatives to carry out random spot checks on the work in progress and utilization of funds for the Project.

Performance Monitoring and Progress Reports

30. The Borrower shall prepare progress reports for the Project and submit these to ADB on a quarterly basis within forty five (45) days from the end of each quarter. Each report shall provide a narrative description of progress made during the period in respect of the Project, changes in the implementation schedule, problems or difficulties encountered, and the work to be carried out in the next period. The progress report will also include a summary financial account for the Loan components consisting of Project expenditures for the year to date, total expenditure to date, and a contract-wise financing plan. The Borrower shall undertake periodic Project performance to evaluate the scope, implementation arrangements, progress and achievements of objectives of the Project, and the overall Investment Program.

Review

31. ADB shall review the implementation and operation of the Project, and the Investment Program, based on the quarterly progress reports and meet with the Borrower and Guarantor semi-annually to discuss the progress of the Loan and any changes to the implementation arrangements.

32. ADB and the Borrower shall undertake a midterm review two (2) years after the Effective Date, focusing on the engineering, resettlement, and environmental aspects, and reviewing the financial status of the Borrower.

33. Within six (6) months of completion of the Project, the Borrower shall furnish a Project completion report to ADB. This report shall cover an evaluation of the Project, Facility, and Investment Program respectively, including the milestones achieved, design, costs, contractors' and consultants' performance, social, environmental and economic impact, and other details as may be requested by ADB.