



LOAN NUMBER 4805 KZ

Guarantee Agreement

(North-South Electricity Transmission Project)

between

REPUBLIC OF KAZAKHSTAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated _____ **, 2005**



LOAN NUMBER 4505 KZ

GUARANTEE AGREEMENT

AGREEMENT, dated _____, 2005, between REPUBLIC OF KAZAKHSTAN (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and Joint Stock Company “Kazakhstan Electricity Grid Operating Company” (the Borrower or KEGOC), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement of even date, have requested the Bank to assist in the financing of Parts A and D of the Project;

(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 in the amount of one hundred million Dollars (\$100,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agrees to guarantee the obligations of the Borrower in respect of such Loan as provided in this Agreement; and

(C) by the Resolution of the Government of the Guarantor No. 926 dated September 19, 2005, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan;

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) 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; Provision of Funds

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.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out Parts A and D of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor shall:

- (a) ensure that KEGOC's tariffs are maintained at levels sufficient to fully cover the company's cash flow requirements (operating costs, debt service, and self-financing of capital investments) as well as a regulated rate of return on net fixed assets.
- (b) approve by the first quarter of 2006 the implementation of a transmission tariff-setting methodology based on the concept of zonal tariffs.
- (c) establish by December 31, 2007, a real-time electricity balancing market to be operated by KEGOC based on transparent market rules.
- (d) cause KEGOC to ensure the implementation of non-discriminatory third party access to the North-South transmission line, including access to export-and international transit-related services, based on published tariffs, applicable to all customers, and to be applied fairly and without discrimination between customers.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Minister 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:

Ministry of Finance
11 Pobedy Street
Astana 010000
Republic of Kazakhstan

Telex:	Facsimile:
264126 (FILIN)	(7) (3172) 717785

With a copy to the Borrower:

Joint Stock Company "Kazakhstan Electricity Grid Operating Company"
7 Bogenbay Batyra Street,
Astana 010000
Republic of Kazakhstan
Attention: The President

Tel. 7 (3172) 970159	Facsimile: 7 (3172) 970455
----------------------	----------------------------

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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Astana, Republic of Kazakhstan, as of the day and year first above written.

REPUBLIC OF KAZAKHSTAN

By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative