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CONFORMED COPY

LOAN NUMBER 4813 - IN

Loan Agreement

(Power System Development Project-III)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

POWERGRID CORPORATION OF INDIA LIMITED

Dated May 2, 2006

LOAN AGREEMENT

AGREEMENT, dated May 2, 2006 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and POWERGRID CORPORATION OF INDIA LIMITED (the Borrower).

WHEREAS (A) India, acting by its President (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project; and

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

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) with the modification set out below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for

withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings for the purpose of this Agreement:

(a) “Core Project” means an Investment Project set out in Part A.1 of Schedule 2 to this Agreement that has been prepared by the Borrower in accordance with the eligibility criteria set out in Schedule 6 to this Agreement;

(b) “Eastern Region” means the region of India comprising the States of Bihar, Jharkhand, Orissa, Sikkim and West Bengal;

(c) “Eligible Category” means category (1) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) “Eligible Expenditures” means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(e) “Environmental and Social Policy and Procedures” means the environment and social policy and procedures set out in a Report of March 2005 approved by the Borrower setting out, inter alia, the policies and procedures of carrying out environmental and social assessments of Investment Projects, preparing environmental mitigation plans, and where applicable, resettlement action plans and other development plans for people adversely affected as a result of the implementation thereof, carrying out consultations, processing and redressing grievances, and monitoring related impacts;

(f) “Financial Monitoring Report” or “FMR” means the report prepared in accordance with Section 4.02 of this Agreement;

(g) “Fiscal Year” and “FY” mean the Fiscal Year of the Borrower beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(h) “Guarantee Agreement” means the agreement between India and the Bank of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Guarantee Agreement;

(i) “Investment Program” means the Borrower’s Investment Program setting forth its ten year investment program for the transmission sub-sector and other approved activities as such Program may be updated from time to time;

(j) “Investment Project” means an Investment Project that meets the eligibility criteria set out in Schedule 6 to this Agreement and to be carried out by the Borrower under Part A of the Project set out in Schedule 2 to this Agreement utilizing the proceeds of the Loan;

(k) “Memorandum and Articles of Association” means the Memorandum and Articles of Association of the Borrower as amended to the date of this Agreement;

(l) “North Eastern Region” means the region of India comprising the States of Arunchal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura;

(m) “Northern Region” means the region of India comprising the States of Delhi, Jammu and Kashmir, Haryana, Himachal Pradesh, Punjab, Rajasthan, Uttar Pradesh, and Uttranchal, and the Union Territory of Chandigarh;

(n) “Procurement Plan” means the Borrower’s procurement plan, dated October 31, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(o) “Report-based Disbursement” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement.

(p) “Security Documents” means documents to be executed, inter alia, by the Borrower for purposes of providing the Bank a pari passu interest in the liens created on its assets as security for debt existing as of the date of this Agreement in order to equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan;

(q) “Southern Region” means the region of India comprising the States of Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu, and the Union Territory of Pondicherry;

(r) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(s) “Western Region” means the region of India comprising the States of Chattisgarh, Goa, Gujarat, Madhya Pradesh and Maharashtra, and the Union Territories of Dadra and Nagar Haveli, and Daman and Diu.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to four hundred million dollars (\$400,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement:

(i) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; and

(ii) in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be July 31, 2011, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars, for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and the Guarantor of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and utilities practices, and shall provide, 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 Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Bank shall otherwise agree, Investment Projects to be carried out by the Borrower under Part A of the Project shall meet the eligibility criteria set out in Schedule 6 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project shall be governed by the provisions of Schedule 4 to this Agreement as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to monitor and record the progress of the Project and of each Investment Project (including its costs and benefits to be derived from it) and to reflect the operations and financial condition of the Borrower and to register separately the operations, resources and expenditures related to the Project and each Investment Project.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (project balance sheets, sources and uses of funds and related statements) referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with consistently applied auditing standards acceptable to the Bank by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, 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 the financial statements referred to in paragraph (a) of this Section, for such year as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records, and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursement) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year referred to in paragraph (b) of this Section

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraphs (8) and (9) of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. Without limitation to the Borrower's obligation set out in Section 4.01, the Borrower shall:

- (i) maintain a financial management system, records and accounts and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition;
- (ii) have the records and accounts audited for each Fiscal Year in accordance with consistently applied auditing standards acceptable to the Bank by independent auditors acceptable to the Bank; and

- (iii) furnish to the Bank, 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 the financial statements referred to in paragraph (i) of this Section, for such year, as so audited, and (B) a report of such audit by said auditors.

Section 4.04. The Borrower shall furnish to the Bank, for the Bank's review and comments, not later than December 31 of each year, starting with December 31, 2006, its financial projections and an updated Investment Program covering the next ten Fiscal Years, including an adequate financing plan for implementing such Investment Program.

Section 4.05. Except as the Bank shall otherwise agree, the Borrower shall take all steps necessary to maintain its accounts receivable at a level not exceeding an amount equivalent to the proceeds of its transmission and other regulated services for the three preceding months.

Section 4.06. (a) Except as the Bank shall otherwise agree, the Borrower shall take all such measures (including, without limitation, adjustments of the structure and levels of its tariffs) as shall be required to produce, starting with the fiscal year beginning April 1, 2005 funds from internal cash generation equivalent to not less than twenty percent (20 %) of the annual average of the Borrower's capital expenditures incurred or expected to be incurred during the previous, current and following fiscal year.

(b) For the purposes of this paragraph:

- (i) the term "funds from internal sources" means the difference between: A) the sum of gross revenues from all sources related to the Borrower's operations, contributions in aid of construction, net non-operating income, proceeds from sales of bonds issued in lieu of outstanding receivables, and any reduction in non-cash working capital; and (B) the sum of all expenses of the Borrower's operations, including maintenance and administration (excluding depreciation and other non-cash operating charges), interest and other charges on debt (excluding interest financed under a loan contract), repayment of loans (including sinking fund payments, if any), all taxes or payments in lieu of taxes, all cash dividends and other cash distributions of surplus, increase in non-cash working capital and any other cash outflows other than cash expenditures related to the operations of the Borrower;
- (ii) the term "capital expenditures" means all expenditures incurred on account of fixed or capital assets, including interest charged to construction, related to the operations of the Borrower;

- (iii) “gross revenue” means the revenue earned and received for the services provided by the Borrower;
- (iv) “expenses” means the sum of all operating expenses, taxes on income and profits, depreciation and interest charged on all debentures, bonds and loans;
- (v) “operating expenses” means the cost of operation and maintenance, service management and administrative expenses, and all taxes accruing during the financial year, other than taxes on income and profits of the Borrower;
- (vi) “taxes on income and profits” consists of income taxes and other levies accrued by the Borrower according to the provisions of any legislation or regulation applicable in this respect;
- (vii) “depreciation” means the applicable provision on depreciation used to prepare the accounts referred to in Section 4.01 of this agreement; and
- (viii) “interest charged on all debentures, bonds and loans” means all interest, excluding interest during construction, accrued by the Borrower during the fiscal year and all other charges on debt.

Section 4.07. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 4 to 1.

(b) For purposes of this Section:

- (i) The term “debt” means any indebtedness of the Borrower 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, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date of the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.

- (iii) The term “equity” means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.

Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, 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 Bank.

ARTICLE V

Management and Operations of the Borrower

Section 5.01. The Borrower shall: (a) carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, environmental and utilities practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers;

(b) at all times operate and maintain its plants, 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 utility practices; and

(c) take out and maintain with responsible insurers or make other provisions satisfactory to the Bank for insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) The Memorandum and Articles of Association of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the financial condition or operation of the Borrower or its ability to perform any of its obligations under the Loan Agreement.

(b) Any Security Document shall have been amended, suspended, abrogated, repealed or waived without the prior approval of the Bank, or the Borrower shall have failed to enforce or implement any provision of any such Security Document.

Section 6.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, any event specified in paragraphs (a) or (b) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the Security Documents shall have been executed and any necessary registrations and filings thereof shall have been made in a manner satisfactory to the Bank and without any cost to it.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Security Documents have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and are legally binding upon the Borrower in accordance with their terms and are adequate for the purpose for which they have been executed.

Section 7.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Chairman of the Borrower or any other person designated by the Chairman in writing is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:
INTBRAFRAD
Washington, D.C.

Telex:
248423 (MCI) or
64145 (MCI)

Facsimile:
202-477-6391

For the Borrower:

POWERGRID CORPORATION OF INDIA LIMITED
B-9, Qutab Institutional Area
Katwaria Sarai, New Delhi 110016

Facsimile

91-11-26560054

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

/s/ Michael F. Carter
Country Director, India

POWERGRID CORPORATION OF INDIA LIMITED

By

/s/ R.P. Singh
Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the Loan**

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
1. Works, installation and erection, goods and consultants services.	399,000,000	100%
2. Fee	1,000,000	Amounts due under Section 2.04 of this Agreement.
TOTAL	<u>400,000,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$40,000,000, may be made in respect of Category 1 set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after December 1, 2005.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods and works costing less than \$25,000,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; and (c) services of

consulting firms under contracts costing less than \$200,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$20,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under the Eligible Category.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under the Eligible Category.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen the transmission system in the power deficit regions of India and to increase inter-regional power transmission capacity.

The Project, which supports the implementation of the FY 2006 – FY 2012 time slice of the Borrower's Investment Program, consists of the following Parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives.

Part A: Transmission system strengthening schemes

1. The implementation of Core Projects consisting of:
 - (a) the construction and operation of a single circuit transmission line (765 kV) connecting Seoni and Bina in the Western Region, including related substations;
 - (b) the construction and operation in the Western Region of a single circuit transmission line connecting Seoni to Wardha (765 kV – initially to be operated at 400 kV), a double circuit transmission line connecting Wardha to Akola (400 kV) and a double circuit transmission line connecting Akola to Aurangabad (400 kV) including related substations; and
 - (c) the construction and operation of a transmission line (500 kV HVDC) between Balia and Bhiwadi in the Northern Region, including related substations.
2. The implementation of additional Investment Projects included in the Borrower's Investment Program.
3. Provision of consultant services for:
 - (a) enhancing inter-regional power exchange capacities of the Borrower, building a data base of the system and conducting studies on residual life assessment of equipment used in the Borrower's operation;
 - (b) strengthening the institutional capacity of the Borrower to implement the Project; and
 - (c) carrying out studies related to the power sector in India.

Part B: Completion of Ongoing Activities

The completion of construction and subsequent operation of activities approved for financing under the Loan Agreement for the Second Powergrid System Development Project (Ln.4603-IN) relating to, inter-alia: (a) regional power system coordination and control facilities in the Eastern and Western Regions; (b) national load dispatch and control centre; (c) transmission system development Investment Projects; and (d) an Investment Project on telecommunication services.

* * *

The Project is expected to be completed by January 31, 2011.

SCHEDULE 3**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
September 15, 2011	9,630,000
March 15, 2012	9,835,000
September 15, 2012	10,050,000
March 15, 2013	10,265,000
September 15, 2013	10,485,000
March 15, 2014	10,710,000
September 15, 2014	10,940,000
March 15, 2015	11,175,000
September 15, 2015	11,415,000
March 15, 2016	11,660,000
September 15, 2016	11,915,000
March 15, 2017	12,170,000
September 15, 2017	12,430,000
March 15, 2018	12,700,000
September 15, 2018	12,970,000
March 15, 2019	13,250,000
September 15, 2019	13,535,000
March 15, 2020	13,825,000
September 15, 2020	14,125,000
March 15, 2021	14,425,000
September 15, 2021	14,735,000
March 15, 2022	15,055,000
September 15, 2022	15,380,000
March 15, 2023	15,710,000
September 15, 2023	16,045,000
March 15, 2024	16,390,000
September 15, 2024	16,745,000
March 15, 2025	17,105,000
September 15, 2025	17,470,000
March 15, 2026	17,855,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 of the General Conditions.

SCHEDULE 4**Procurement and Consultant's Services**Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding: Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding: Goods estimated to cost less than \$300,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions agreed between the Borrower and the Bank.

2. Direct Contracting: Goods which meet the requirements set forth in paragraph 3.6 of the Procurement Guidelines may, with the Bank's prior agreement, be procured on the basis of Direct Contracting in accordance with provisions of paragraph 3.6 and 3.7 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultant Services

A. Quality- and Cost-based Selection

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection

Services under Part A.3 of the Project which meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines shall be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Part A.3 of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection

Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (i) The first contracts

under Seoni-Wardha and Akola-Aurangabad transmission system for (a) Tower Package; (b) Conductor Package; (c) Insulator Package; and (d) Sub Station package, estimated to cost USD 7.5 million and above per contract; (ii) the first contract for Seoni-Bina transmission system for Tower Package; (iii) the contract for HVDC Terminal at Balia and Bhiwadi and first contracts for (a) 500 kV HVDC bipole; (b) ACR Lapwing & Moose Conductor and (c) 210 kN HVDC & 120 kN AC Insulator packages under “2500 MW HVDC” Bipole along with Bipole Converter Stations Project; (iv) all subsequent contracts for goods and works estimated to cost \$ 25 million equivalent or more per contract or which has been recommended for award costing \$25,000,000 equivalent or more per contract; and (v) each contract for consultants’ services provided by a firm estimated to cost the equivalent of \$200,000 or more and contracts on single source estimated to cost the equivalent of \$100,000 or more per contract. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank as per paragraphs 5 of Appendix 1 to the Procurement Guidelines and Appendix 1 to the Consultant Guidelines.

SCHEDULE 5

Implementation Program

1. With respect to each Investment Project, the Borrower shall, in accordance with procedures and methodology satisfactory to the Bank, prepare a detailed Project Implementation Plan covering matters including project design, land requirements, detailed engineering, technology used, cost estimates, construction arrangements and the eligibility criteria set out in Schedule 6 to this Agreement.

2. When presenting an Investment Project to the Bank for approval, the Borrower shall furnish to the Bank the Project Implementation Plan of the Investment Project prepared in accordance with paragraph (1) of this Schedule including a description of the financing arrangements for the Investment Project and the expenditures proposed to be financed out of the proceeds of the Loan, evidence that the Investment Project meets the eligibility criteria set forth in Schedule 6 to this Agreement, the proposed contractual and other arrangements for implementing the Investment Project, and such other information as the Bank shall reasonably request.

3. No expenditures for works, goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless the Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than twelve months prior to the date on which the Bank shall have received the information required under paragraph 2 of this Schedule in respect of such Investment Project.

4. The Borrower shall:

(a) carry out the Investment Projects approved for financing pursuant to the provision of paragraph (2) of this Schedule in accordance with:

- (i) technical specifications and standards satisfactory to the Bank;
- (ii) the objectives, policies, principles, entitlement framework and time schedule of the environmental mitigation plan, the resettlement action plan, and other development plan for adversely affected people formulated pursuant to the provisions of paragraph 5 of Schedule 6 to this Agreement; and
- (iii) the Environmental and Social Policy and Procedures;

(b) except as the Bank may otherwise agree, not initiate any physical work for implementing an Investment Project unless all required land acquisition in respect thereof as maybe specified in the resettlement action plan referred to in clause (a) (ii) of this paragraph 4 has been completed in a manner satisfactory to the Bank; and

(c) not amend, abrogate, waive or fail to enforce any provision of the Environmental and Social Policy and Procedures or any of the plans referred to in clause (a) (ii) of this paragraph without the prior written approval of the Bank.

5. The Borrower shall carry out the completion of the remaining activities approved for financing under the Loans referred to in Part B of the Project in accordance with technical specifications and standards satisfactory to the Bank, and such other procedures and arrangements as the Bank shall specify, including carrying out environmental mitigation measures and resettlement and rehabilitation of affected people in accordance with the Environmental and Social Policy and Procedures.

6. The Borrower shall complete Investment Projects approved for financing by the Bank pursuant to paragraph 2 of this Schedule in a manner satisfactory to the Bank and for such purpose shall provide or procure all financing required to cover any changes in the financing plan for such Investment Project.

7. The Borrower:

(a) shall maintain an adequate organizational structure with functions, powers, staff and resources, satisfactory to the Bank, for implementing the Environmental and Social Policy and Procedures for the Project; and

(b) unless the Bank otherwise agrees, shall not waive, amend, modify, abrogate or repeal the Environmental and Social Policy Procedures or any provision thereof.

8. The Borrower shall provide to the Bank:

(a) monthly reports on collection and billing within 15 days of the end of each month beginning with the month following the month in which the Effective Date falls; and

(b) quarterly reports setting out the progress of the Project to the end of the quarter covered by the report, such report to be furnished within 30 days of the end of each quarter beginning with the quarter following the quarter in which the Effective Date falls.

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by October 31, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31, 2008, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

SCHEDULE 6

Eligibility Criteria

Except as the Bank may otherwise agree, the Borrower shall ensure that an Investment Project in respect of which the Bank approval is sought pursuant to the provisions of paragraph 2 of Schedule 5 to this Agreement meets the eligibility criteria set out in the following Parts:

1. The Investment Project is technically and operationally justified and has been formulated after taking into account other alternative investments.
2. The Investment Project is based on least cost options and is included in the Borrower's overall least cost Investment Program, and is economically and financially justified in the context of such Program.
3. The appropriate authorities of the Guarantor have provided the required clearances/approvals for implementing the Investment Project, including environmental and forest clearances, as applicable, prior to initiation of construction in those relevant segments of such Investment Project for which environmental and forest clearances are required .
4. The Investment Project has adequate financing and procurement plans.
5. The Investment Project complies with the Environmental and Social Policy and Procedures and towards that end, the Borrower has carried out an environmental and social impact assessment for that Investment Project and prepared an environmental mitigation plan, and where applicable, a resettlement action plan or other development plan containing objectives, policies, principles, entitlement framework and time schedules for mitigating the adverse impacts in accordance with the Environmental and Social Policy and Procedures, satisfactory to the Bank.
6. The Investment Project shall be for the strengthening of the transmission system and inter-regional power exchange for the national grid.
7. Such additional criteria as may be specified by the Bank for each additional Investment Project other than the Core Projects.