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MEMORANDUM OF UNDERSTANDING

For Execution of Pakal Dul and other
Hydroelectric Projects with
aggregate installed capacity of about 2100 MW in the
Chenab River Basin of Jammu & Kashmir State

This Memorandum of Understanding is made on this the 10th day of October, 2008 among:

The Governor of Jammu & Kashmir State through Secretary to Government, Power Development Department, Government of Jammu and Kashmir (GoJK) which expression shall include his successor and assign(s) of the first part;

Jammu & Kashmir State Power Development Corporation Limited (JKSPDC), a company incorporated under the Companies Act, 1956 having its registered office at Exhibition Ground, Srinagar – 190001; through its Managing Director, which expression shall include his successors, executors, administrators and assign(s) of the second part;

NHPC Ltd., a company incorporated under the Companies Act, 1956 and also a generating company within the meaning of the Electricity Act, 2003, having its registered office at NHPC Office Complex, Sector – 33 Faridabad, Haryana 121003; through its Chairman

R. Shinde M.L. S.

and Managing Director, which expression shall include his successors, executors, administrators and assign(s) of the third part; and

PTC India Ltd. (PTC), a company incorporated under the Companies Act, 1956, having its registered office at 2nd floor NBCC tower, 5 Bhikaji Cama Palace, New Delhi; through its Chairman and Managing Director, which expression shall include his successors, executors, administrators and assign(s) of the fourth part;

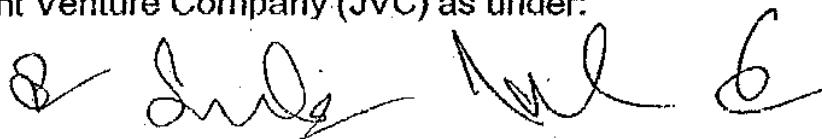
Whereas, the Government of Jammu & Kashmir is committed to harness the hydroelectric potential of Pakal Dul and other Hydroelectric Projects with aggregate installed capacity of about 2100 MW in the Chenab River Basin in accordance with provision of Indus Waters Treaty; and

Whereas, the Ministry of Power, Government of India is keen to add new power generation capacity with a view to meeting the gap between the demand and supply in the country; and

Whereas in order to achieve the objective of increasing the power generation capacity, the Government of Jammu & Kashmir has proposed to develop Pakal Dul and other Hydroelectric Projects with aggregate installed capacity of about 2100 MW in the Chenab River Basin, hereinafter referred to as the 'Projects' through a Joint Venture Company (JVC) to be set up among the JKSPDC, NHPC and PTC under the Companies Act, 1956; and

Whereas JKSPDC, NHPC and PTC have accepted the proposal of the Government of Jammu & Kashmir,

Now, therefore, this Memorandum of Understanding among the GoJK, JKSPDC, NHPC and PTC sets out the rights and obligations of the parties to construct, commission and operate the Projects through a Joint Venture Company (JVC) as under:



I. SETTING UP OF THE JVC

(a) A Joint Venture Company (JVC) under the Companies Act, 1956 shall be set up in J&K among JKSPDC, NHPC and PTC to construct, commission and operate the Projects after obtaining approval from the Govt. of India and from the Govt. of J&K.

(b) Detailed modalities will be worked out separately as would be mutually acceptable to all the parties. However, NHPC shall have the share of not less than 49% and JKSPDC shall have the share of not more than 49% of the total share holding in the JVC. The balance 2% equity will be infused by PTC as a strategic partner to facilitate trading of surplus power.

(c) The timely and *pari passu* contribution towards their share of equity shall be the responsibilities of the parties to this MoU. JVC would have no objection to GoJK / JKSPDC raising their share of equity from any financial institutions, banks or any other source on the basis of securitization of the share of free power and share of power of GoJK / JKSPDC from the projects to be implemented under this MoU.

(d) The GoJK shall make available unencumbered land as may be required for the projects to be taken up by the JVC, to the JVC on lease hold basis as per the land laws applicable to the State of Jammu & Kashmir from time to time, through transfer or acquisition, including compulsory acquisition. The cost incurred by GoJK on the land so acquired or transferred or leased or provided by GoJK and not paid for by the JVC, will go towards the equity contribution of JKSPDC to the JVC. The GoJK shall have the option to contribute towards the share equity of JKSPDC in the JVC by way of :

- 1) Cost of all types of Government lands.
- 2) Development of such infrastructure up to the Project sites which is part of the estimates of the respective projects.

(e) JKSPDC and NHPC would have the right to purchase share holding of the other partner in the joint venture in accordance with mutually agreed terms and conditions.

(f) The PTC, however, shall support stand of NHPC at all times for smooth functioning of JVC.

(g) Unless otherwise mutually agreed among the parties, none of the parties, shall sell, assign, mortgage or otherwise encumber its shareholding/funding rights in the JVC for initial period of three years after the incorporation of the JVC. After the lock-in period as provided above no party shall part with or otherwise transfer, either fully or any part of, its share in the JVC to any person unless the said shares have first been offered to the parties to this MoU. In case the parties to this MoU decline to purchase the shares offered to them by one of the parties, then the party offering to sell his share shall be free to offer the same to any person at a price which shall not be more favourable than the price earlier offered to the parties to this MoU.

II. SHARING OF BENEFITS

(a) The benefits of Joint Venture shall be shared by respective parties in proportion to their actual contribution in share holding of JVC.

(b) The JVC shall be under an obligation to provide 12% of power generated from the Projects, free of cost to GoJK. In addition, 1% free power for local area development shall also be provided by the JVC. The fund shall be operated as per the guidelines issued in the New Hydro Policy 2008. Further, out of the balance 87% power, the GoJK would have the right to purchase power from the JVC in proportion to the share of JKSPDC in the equity of the JVC at the price determined as per regulatory norms. After this, the balance power will be sold by NHPC and PTC to purchasers at the market price with the first right of refusal being given to JKPDD.

III. RIGHTS OF GOVERNMENT OF JAMMU & KASHMIR

- (a) Revenue receipts on account of sale of timber, royalty on river bed materials etc. arising as a result of the submergence of areas by the Projects shall accrue to GoJK.
- (b) Rights in fisheries, navigation, exploitation of tourism potential etc. in respect of the ponds created by the Projects shall vest with the GoJK;
- (c) GoJK will have the right to develop / allot other schemes proposed to be executed in the upstream and downstream as also in the vicinity of the Projects provided design and execution of such schemes does not affect design & operation of the Projects adversely.

IV. MANPOWER REQUIREMENT

The staff for rehabilitation and resettlement (R&R) activities shall be deputed by GoJK to JVC and the remaining staff to the JVC shall be provided in following manner:

- (a) 80% of Group C&D staff in JVC shall be Permanent Residents of J&K State subject to their suitability, availability and eligibility.
- (b) A minimum of 49% of Group A&B staff in the JVC shall be Permanent Residents of J&K State subject to their suitability, availability and eligibility. The requirement under these categories shall be met either by way of deputation from NHPC, JKSPDC/Departments of GoJK or through recruitment by the JVC.

V. RIGHTS AND OBLIGATIONS OF THE JVC

- (a) Without prejudice to J&K land laws, the JVC shall have exclusive rights over the Projects.

A handwritten signature in black ink, appearing to read "Gulab Singh". The signature is fluid and cursive, with "Gulab" on the left and "Singh" on the right, connected by a diagonal line.

- (b) The design, construction and operation of the Projects would be as per provisions of the Indus Waters Treaty. JVC shall also render all assistance needed by the Govt. of India in view of the provisions of the Treaty.
- (c) The JVC would comply with conditions imposed by the Government of India from time to time in respect of clearances to the Projects. It would also comply with conditions imposed by GoJK in respect of clearances to the Projects.

VI. JOINT RESPONSIBILITY OF GoJK AND JVC TOWARDS THE R&R AND OTHER WORKS

- (a) The work of R&R of the oustees of the Projects would be the joint responsibilities of the JVC and GoJK. The entire expenditure incurred on this account would be borne by the JVC. This activity would be implemented in accordance with the approved R&R plan for the Projects. GoJK would provide staff on deputation to enable the JVC to carry out this task. The GoJK will facilitate the acquisition of the land at the expense of JVC and transfer/ lease/ provide it to the JVC in accordance with the laws prevalent in the State of Jammu & Kashmir. JVC shall obtain all clearances including environmental, forest etc. from the Government of India and State Government as would be mandatory for Projects implementation.
- (b) Security arrangements for the Projects areas shall be looked after by the GoJK. However, specific security arrangements for guarding the Projects sites, temporary and permanent installations etc. shall be made by the JVC.

VII. PROGRAMME OF IMPLEMENTATION

- (a) The Chairman of the Board of Directors shall be a non-executive professional, who shall be appointed by GoJK in consultation with NHPC. The posts of Managing Director (MD) and Joint Managing

R. D. D. K. S. /

Director (JtMD) shall be held by the nominees of NHPC and JKSPDC respectively. Board of Directors of JVC will have equal representation from NHPC and JKSPDC. The PTC will not be represented on the Board.

- (b) Any change in the structures of the management of the JVC which is mutually agreed by the parties shall not have an impact on ongoing activities of the Projects.
- (c) The JVC shall endeavour to complete the Projects within the time schedule approved by the Government of India and the time schedule will commence from the date of accord of approval subject to acquisition of land and obtaining all statutory clearances.
- (d) The head office / registered office of JVC shall be in the State of Jammu & Kashmir.

VIII. FUNDING ARRANGEMENT

- (a) The JVC shall meet its financial requirement on its own without the cost to the parties. It shall not be obligatory on the part of the parties to give any guarantee and security for raising of funds by JVC. The financial liabilities of the parties shall be limited only to the extent of their respective shareholding.
- (b) The cost of Projects will be met by way of debt equity norms in accordance with regulatory guidelines. Ministry of Power, Government of India, GoJK, JKSPDC, NHPC and PTC will facilitate the financial closure of the Projects. JVC will pursue with Government of India for mega status of the Projects.

IX. MODE OF EXECUTION

The Projects will be developed on Build, Own, Operate and Maintain (BOOM) basis through JVC. The JVC will maintain the Projects

properly and keep them in good operational condition and carry out running and maintenance works as and when required.

X. LEASE HOLD RIGHTS

The lease hold rights of the land required for the Projects, against payment and land revenue as fixed by State Government, shall be granted initially for a period of 40 years in accordance with State laws. On the expiration of that period, the lease shall be renewed for a further term not exceeding 40 years at a time subject to a maximum period of 90 years.

XI. POWER EVACUATION SYSTEM

The modalities of power evacuation system shall be decided by the Board of the JVC.

XII. PROTECTION OF ENVIRONMENT

JVC will comply with all measures prescribed under the law for protection of environment.

XIII. MONITORING

(a) Implementation of this MoU will be monitored by a Committee comprising of a representative each from Ministry of Power, Government of India, GoJK, NHPC and JKSPDC.

(b) The Committee shall meet atleast once in three months till formation of JVC.

XIV. MISCELLANEOUS

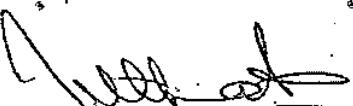
(a) Any other matter not included in this MoU which is necessary for the smooth functioning of the JVC will be finalized by NHPC, JKSPDC, GoJK and PTC on mutually agreed terms and conditions.

(b) Through this Memorandum of Understanding all the parties affirm their commitment to fulfil and achieve the objectives mutually agreed upon in this Memorandum of Understanding.

(c) This Memorandum of Understanding shall remain valid for a period of two years from the date of its signing or till formation of JVC, whichever is earlier.

Signed this day the 10th October, 2008 at Chanderkote.

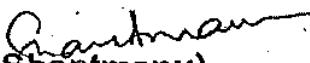
For and on the behalf of
PTC India Ltd.


(T.N. Thakur)
Chairman & Managing Director,
PTC India Ltd.

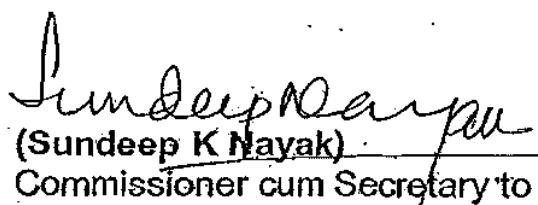
For and on the behalf of
NHPC Ltd


(S. K. Garg)
Chairman & Managing Director
NHPC Ltd.

For and on the behalf of
J&K State Power Development
Corporation


(Shantmanu)
Managing Director
J&K State Power Development
Corporation

For and on the behalf of
Governor of Jammu & Kashmir


(Sundeep K. Nayak)
Commissioner cum Secretary to
Government of Jammu & Kashmir
Power Development Department