**RED HERRING PROSPECTUS**
Please read Section 60B of the Companies Act, 1956
**Book Building Issue**
**Dated October 21, 2010**

# POWER GRID CORPORATION OF INDIA LIMITED

Our Company was incorporated in New Delhi on October 23, 1989 under the Companies Act, 1956 (the "**Companies Act**") as a public limited company under the name 'National Power Transmission Corporation Limited'.

For more information on change in the name of our Company and our registered office, see *"History and Certain Corporate Matters"* on page 130.


**Registered Office:** B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi 110 016, India **Tel:** +91 (11) 2656 0112 **Fax:** +91 (11) 2656 4849
**Corporate Office:** "Saudamini", Plot No.2, Sector 29, Gurgaon 122 001, Haryana, India **Tel:** +91 (124) 2571 700 **Fax:** +91 (124) 2571 848
**Company Secretary and Compliance Officer:** Ms. Divya Tandon, Company Secretary **Tel:** +91 (124) 2571 968 **Fax:** +91 (124) 2571 891 **E-mail:** investors@powergridindia.com.
**Website:** www.powergridindia.com.


**Promoter**: President of India, acting through the Ministry of Power, Government of India ("**MoP**") and the Ministry of Development of North Eastern Region, Government of India ("**MoDoNER**")

**FURTHER PUBLIC ISSUE OF 841,768,246 EQUITY SHARES OF ₹ 10 EACH ("EQUITY SHARES") FOR CASH AT A PRICE OF ₹ [•] PER EQUITY SHARE OF POWER GRID CORPORATION OF INDIA LIMITED ("POWERGRID", "OUR COMPANY" OR "THE ISSUER") AGGREGATING ₹ [•] MILLION (THE "ISSUE"). THE ISSUE COMPRISES A FRESH ISSUE OF 420,884,123 EQUITY SHARES BY OUR COMPANY (THE "FRESH ISSUE") AND AN OFFER FOR SALE OF 420,884,123 EQUITY SHARES BY THE PRESIDENT OF INDIA ACTING THROUGH THE MINISTRY OF POWER, GOVERNMENT OF INDIA (THE "SELLING SHAREHOLDER") (THE "OFFER FOR SALE"). THE ISSUE COMPRISES A NET ISSUE TO THE PUBLIC OF 838,378,646 EQUITY SHARES ("THE NET ISSUE") AND A RESERVATION OF 3,389,600 EQUITY SHARES FOR SUBSCRIPTION BY ELIGIBLE EMPLOYEES (AS DEFINED HEREIN) (THE "EMPLOYEE RESERVATION PORTION"). THE ISSUE WOULD CONSTITUTE 18.2% OF THE POST ISSUE PAID-UP EQUITY CAPITAL OF OUR COMPANY AND THE NET ISSUE WOULD CONSTITUTE 18.1% OF THE POST ISSUE PAID-UP EQUITY CAPITAL OF OUR COMPANY. THE FACE VALUE OF THE EQUITY SHARE IS ₹ 10 EACH.**

**THE PRICE BAND, RETAIL DISCOUNT, EMPLOYEE DISCOUNT AND THE MINIMUM BID LOT WILL BE DECIDED BY OUR COMPANY AND THE SELLING SHAREHOLDER IN CONSULTATION WITH THE BOOK RUNNING LEAD MANAGERS AND ADVERTISED IN THE MUMBAI EDITION AND DELHI EDITION OF THE *FINANCIAL EXPRESS* AND THE DELHI EDITION OF THE *JANSATTA* AT LEAST ONE WORKING DAY PRIOR TO THE BID OPENING DATE, WITH THE RELEVANT FINANCIAL RATIOS CALCULATED AT THE FLOOR PRICE AND AT THE CAP PRICE.***

**Discount of ₹ [•] to the Issue Price is being offered to Retail Bidders ("**Retail Discount**") and Eligible Employees (the "**Employee Discount**"), respectively.*

In case of revision in the Price Band, the Bidding Period will be extended for at least three additional Working Days after the revision of the Price Band subject to the Bidding Period not exceeding 10 Working Days. Any revision in the Price Band and the revised Bidding Period, if applicable, will be widely disseminated by notification to the Bombay Stock Exchange Limited (the "**BSE**") and the National Stock Exchange of India Limited (the "**NSE**"), by issuing a press release, and also by indicating the change on the websites of the Book Running Lead Managers ("**BRLMs**") and at the terminals of the members of the Syndicate.

This Issue is being made through the Book Building Process where up to 50% of the Net Issue will be allocated on a proportionate basis to Qualified Institutional Buyers ("**QIBs**") ("**QIB Portion**"). For more information, see "***Issue Procedure***" on page 376. Further, 5% of the QIB Portion will be available for allocation on a proportionate basis to Mutual Funds only. The remainder will be available for allocation on a proportionate basis to QIBs and Mutual Funds, subject to valid Bids being received from them at or above the Issue Price. In addition, not less than 15% of the Net Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Issue will be available for allocation on a proportionate basis to Retail Bidders, subject to valid Bids being received at or above the Issue Price. Any Bidder may participate in this Issue through the ASBA process by providing the details of the ASBA Accounts in which the corresponding Bid Amounts will be blocked by the Self Certified Syndicate Banks ("**SCSBs**"). For more information, specific attention is invited to "***Issue Procedure***" on page 376.

## GENERAL RISKS

Investments in equity and equity-related securities involve a degree of risk and Bidders should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Bidders are advised to read the Risk Factors carefully before making an investment decision in this Issue. For making an investment decision, Bidders must rely on their own examination of our Company and this Issue, including the risks involved. The Equity Shares offered in this Issue have not been recommended or approved by the Securities and Exchange Board of India ("**SEBI**"), nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus. This being a fast track issue under Regulation 10 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended from time to time ("**SEBI Regulations**"), our Company filed the Red Herring Prospectus with the Registrar of Companies, National Capital Territory of Delhi and Haryana ("**RoC**") with a copy to SEBI and the Stock Exchanges. Specific attention of the Bidders is invited to "***Risk Factors***" on page xiv.

## ISSUER'S ABSOLUTE RESPONSIBILITY

Our Company, having made all reasonable inquiries, accepts responsibility for and confirms that this Red Herring Prospectus contains all information with regard to our Company and this Issue which is material in the context of this Issue, that the information contained in this Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

## LISTING

The Equity Shares of our Company are listed on the BSE and the NSE. NSE is the Designated Stock Exchange for the Issue.

| BOOK RUNNING LEAD MANAGERS | | | | REGISTRAR TO THE ISSUE |
|---|---|---|---|---|
| **SBI Capital Markets Limited**<br>202, Maker Tower E<br>Cuffe Parade<br>Mumbai 400 001, India<br>Tel: +91 (22) 2217 8300<br>Fax: +91 (22) 2218 8332<br>Email: powergrid.fpo@sbicaps.com<br>Investor Grievance E-mail: investor.relations@sbicaps.com<br>Website: www.sbicaps.com<br>Contact Person: Mr. Harsh Soni/Ms. Neha Pruthi<br>SEBI Registration No.: INM000003531 | **Goldman Sachs (India) Securities Private Limited**<br>951-A Rational House<br>Appasaheb Marathe Marg<br>Prabhadevi<br>Mumbai 400 025, India<br>Tel: +91 (22) 6616 9000<br>Fax: +91 (22) 6616 9090<br>Email: powergrid.fpo@gs.com<br>Investor Grievance E-mail: india-client-support@gs.com<br>Website: http://www2.goldmansachs.com/worldwide/india/indian_offerings.html<br>Contact Person: Ms. Priya Subbaraman<br>SEBI Registration No.: INM000011054 | **ICICI Securities Limited**<br>ICICI Centre, H.T. Parekh Marg<br>Churchgate<br>Mumbai 400 020, India<br>Tel: +91 (22) 2288 2460<br>Fax: +91 (22) 2282 6580<br>Email: powergrid.fpo@icicisecurities.com<br>Investor Grievance E-mail: customercare@icicisecurities.com<br>Website: www.icicisecurities.com<br>Contact Person: Mr. Vishal Kanjani<br>SEBI Registration No.: INM000011179 | **J.P. Morgan India Private Limited**<br>J.P. Morgan Tower<br>Off C.S.T. Road<br>Kalina, Santacruz (East)<br>Mumbai 400 098, India<br>Tel: + 91 (22) 6157 3000<br>Fax: + 91 (22) 6157 3911<br>Email: project-powergridfpo@jpmorgan.com<br>Investor Grievance E-mail: investorsmb.jpmipl@jpmorgan.com<br>Website: www.jpmipl.com<br>Contact Person: Mr. Manu Midha<br>SEBI Registration No.: INM000002970 | **KARVY COMPUTERSHARE PRIVATE LIMITED**<br>Plot No. 17 - 24, Vithal Rao Nagar<br>Madhapur<br>Hyderabad 500 081, India<br>Tel : + (91 40) 4465 5000<br>Fax : + (91 40) 2343 1551<br>E-mail: pgcil.fpo@karvy.com<br>Website: www.karvy.com<br>Contact Person: Mr. M. Muralikrishna<br>SEBI Registration No: INR000000221 |

## BIDDING PROGRAMME

| | | | |
|---|---|---|---|
| **BID OPENS ON** | **NOVEMBER 9, 2010** | **BID CLOSES ON (FOR QIB BIDDERS)** | **NOVEMBER 11, 2010** |
| | | **BID CLOSES ON (FOR ALL OTHER BIDDERS)** | **NOVEMBER 12, 2010** |

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## SECTION I - GENERAL
## DEFINITIONS AND ABBREVIATIONS

Unless the context otherwise indicates or implies, the following terms have the following meanings in this Red Herring Prospectus, and references to any statute or regulations or policies will include any amendments or re-enactments thereto, from time to time.

### Company-Related Terms

| Term | Description |
|---|---|
| "Powergrid", "the Company", "our Company" and "the Issuer" | Power Grid Corporation of India Limited, a public limited company incorporated under the Companies Act with its registered office at B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi 110 016, India |
| AoA/Articles of Association or Articles | The articles of association of our Company, as amended from time to time |
| Audit Committee | The audit committee of our Board of Directors described in "***Our Management***" on page 164 |
| Auditors | The statutory auditors of our Company, being A.R. & Company, Chartered Accountants, Umamaheshwara Rao & Co., Chartered Accountants and S R I Associates, Chartered Accountants |
| Board or Board of Directors | The board of directors of our Company |
| BTCL | Byrnihat Transmission Company Limited |
| DVC | Damodar Valley Corporation |
| Directors | The directors of our Company |
| EESL | Energy Efficiency Services Limited |
| ESPP | Environment and Social Policy and Procedures |
| Identified Projects | The identified transmission projects of our Company, as specified in "***Objects of the Issue***" on page 43 |
| IL&FS | Infrastructure Leasing and Financial Services Limited |
| Jaiprakash | Jaiprakash Hydro-Power Limited |
| JPL | Jaypee Powergrid Limited |
| MoA/Memorandum of Association | The memorandum of association of our Company, as amended from time to time |
| NETCL | North East Transmission Company Limited |
| NHPTL | National High Power Test Laboratory Private Limited |
| NTPC | NTPC Limited |
| OTPC | ONGC Tripura Power Company Limited |
| Promoter | The President of India, acting through the MoP and the MoDoNER |
| POSOCO | Power System Operation Corporation Limited |
| PFC | Power Finance Corporation Limited |
| PITPL | Powergrid IL&FS Transmission Private Limited |
| PKTCL | Parbati Koldam Transmission Company Limited |
| PTC | Power Trading Corporation of India Limited |
| PTL | Powerlinks Transmission Limited |
| Registered Office | The registered office of our Company, at B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi 110 016, India |
| RIL | Reliance Infra Limited |
| Selling Shareholder | The President of India, acting through the MoP |
| Subsidiaries | Power System Operation Corporation Limited and Byrnihat Transmission Company Limited |
| Tata Power | Tata Power Company Limited |
| TPL | Torrent Powergrid Limited |
| Torrent | Torrent Power Limited |
| TUL | Teesta Urja Limited |
| TVPTL | Teesta Valley Power Transmission Limited |

### Issue Related Terms

| Term | Description |
|---|---|
| Allotted/Allotment/Allot | Issue, transfer and allotment of Equity Shares to successful Bidders pursuant to this Issue |
| Allottee | A successful Bidder to whom the Equity Shares are Allotted |
| Application Supported by Blocked Amount/ASBA | Application (whether physical or electronic) used by a Bidder to make a Bid authorizing the SCSB to block the Bid Amount in the specified bank account maintained with the SCSB |
| ASBA Account | Account maintained with an SCSB which will be blocked by such SCSB to the extent of the Bid Amount of the ASBA Bidder |
| ASBA Bid cum Application Form | The Bid cum Application Form, whether physical or electronic, used by an ASBA Bidder to make a Bid, which will be considered as the application for Allotment for the purposes of this Red Herring Prospectus and the Prospectus |
| ASBA Bidder | Any Bidder who applies through ASBA |
| ASBA Revision Form | The revision forms used by ASBA Bidders to modify the quantity of Equity Shares in any of their ASBA Bid cum Application Forms or any previous Revision Forms |
| Bankers to the Issue/Escrow Collection Banks | ICICI Bank Limited, Union Bank of India, IDBI Bank Limited, YES Bank Limited, HDFC Bank Limited, Axis Bank Limited, Indusind Bank Limited, Kotak Mahindra Bank Limited and State Bank of India |
| Basis of Allotment | The basis on which the Equity Shares will be Allotted, described in "***Issue Procedure***" on page 376 |
| Bid | An indication to make an offer during the Bidding Period by a Bidder pursuant to submission of a Bid cum Application Form to subscribe to our Equity Shares at a price within the Price Band, including all revisions and modifications thereto |
| Bid Amount | The highest value of the optional Bids indicated in the Bid cum Application Form and payable by a Bidder on submission of a Bid in the Issue and in the case of ASBA Bidders, the amount mentioned in the ASBA Bid cum Application Form |
| Bid Closing Date | November 11, 2010 for all QIB Bidders and November 12, 2010 for all other Bidders |
| Bid cum Application Form | The form in terms of which the Bidder will make an offer to purchase Equity Shares and which will be considered as the application for the issue/transfer of Equity Shares pursuant to the terms of this Red Herring Prospectus and the Prospectus, including the ASBA Bid cum Application, as may be applicable |
| Bidder | Any prospective investor who makes a Bid pursuant to the terms of the Red Herring Prospectus and the Bid cum Application Form, including an ASBA Bidder |
| Bidding Period | The applicable period between the Bid Opening Date and the Bid Closing Date, inclusive of both days, during which prospective Bidders can submit their Bids, including any revisions thereof |
| Bid Opening Date | November 9, 2010 |
| Book Building Process | The method of book building as described in Schedule XI of the SEBI Regulations, in terms of which the Issue is being made |
| Book Running Lead Managers/BRLMs | The book running lead manager to the Issue, in this case being SBI Capital Markets Limited, Goldman Sachs (India) Securities Private Limited, ICICI Securities Limited and J.P. Morgan India Private Limited |
| Cap Price | Higher end of the Price Band, including revisions thereof, above which the Issue Price will not be determined and above which no Bids will be accepted |
| Controlling Branches of the SCSBs | Such branches of the SCSBs which coordinate Bids in the Issue by ASBA Bidders with the BRLMs, the Registrar to the Issue and the |

| Term | Description |
|---|---|
| | Stock Exchanges, a list of which is available on http://www.sebi.gov.in/pmd/scsb.pdf |
| Cut-off Price | The Issue Price finalized by our Company and the Selling Shareholder, in consultation with the BRLMs which will be any price within the Price Band. Only Retail Bidders and Eligible Employees, whose Bid Amount does not exceed ₹ 100,000 are entitled to Bid at the Cut-off Price. QIBs and Non-Institutional Bidders are not entitled to Bid at the Cut-off Price |
| Designated Branches | Such branches of the SCSBs which will collect the ASBA Bid cum Application Form used by ASBA Bidders, a list of which is available on http://www.sebi.gov.in/pmd/scsb.pdf |
| Designated Date | The date on which funds are transferred from the Escrow Accounts to the Public Issue Account and the amount blocked by the SCSBs are transferred from the ASBA Accounts to the Public Issue Account, as the case may be, after the Prospectus is filed with the RoC, following which the Equity Shares will be Allotted |
| Designated Stock Exchange | National Stock Exchange of India Limited |
| DP ID | Depository Participant's Identity |
| Eligible Employee | A permanent and full-time employee of our Company and that of our Subsidiaries or a Director of our Company (excluding such other persons not eligible under applicable laws, rules, regulations and guidelines), as on the date of filing of the Red Herring Prospectus with the RoC, who are Indian nationals and are based, working and present in India as on the date of submission of the Bid cum Application Form and who continue to be in the employment of our Company or the Subsidiaries or Directors of our Company, as the case may be, until submission of the Bid cum Application Form.<br><br>An employee of our Company or Subsidiaries who is recruited against a regular vacancy but is on probation as on the date of submission of the Bid cum Application Form will also be deemed a 'permanent employee' |
| Eligible NRI | A NRI resident in a jurisdiction outside India where it is not unlawful to make an offer or invitation under the Issue and in relation to whom the Red Herring Prospectus constitutes an invitation to subscribe for the Equity Shares |
| Employee Discount | The difference of ₹ [●] between the Issue Price and the differential lower price at which our Company and the Selling Shareholder has decided to Allot the Equity Shares to Eligible Employees. The Employee Discount will be 5% of the Issue Price |
| Employee Reservation Portion | The portion of the Issue, being 3,389,600 Equity Shares, available for allocation to Eligible Employees. The employee reservation portion will not exceed 5% of the post-Issue capital of our Company |
| Equity Listing Agreements | The Company's equity listing agreements entered into with the Stock Exchanges |
| Equity Share(s) | Equity Shares of our Company with a face value of ₹ 10 each |
| Escrow Account(s) | Accounts opened with the Escrow Collection Banks for the Issue and in whose favour the Bidders (excluding ASBA Bidders) will issue cheques or drafts in respect of the Bid Amount |
| Escrow Agreement | The agreement dated October 20, 2010 entered into amongst our Company, the Selling Shareholder, the Registrar, the members of the Syndicate and the Escrow Collection Banks for collection of the Bid Amounts and remitting refunds, if any, of the amounts to the Bidders (excluding ASBA Bidders) on the terms and conditions thereof |
| First Bidder | The Bidder whose name appears first in the Bid cum Application Form or the Revision Form |
| Floor Price | Lower end of the Price Band and any revisions thereof, below which |

| Term | Description |
|---|---|
| | the Issue Price will not be finalized and no Bids will be accepted and which shall not be lower than the face value of our Equity Shares |
| Fresh Issue | Fresh issue of 420,884,123 Equity Shares by our Company, as part of the Issue in terms of this Red Herring Prospectus |
| Issue | Further public issue of 841,768,246 Equity Shares of ₹ 10 each for cash at a price of ₹ [•] per Equity Share of our Company aggregating ₹ [•] million. The Issue comprises a Fresh Issue of 420,884,123 Equity Shares by our Company and an Offer for Sale of 420,884,123 Equity Shares by the Selling Shareholder. The Issue comprises a Net Issue to the public of 838,378,646 Equity Shares and an Employee Reservation Portion of 3,389,600 Equity Shares for subscription by Eligible Employees |
| Issue Agreement | The agreement dated October 20, 2010 entered into amongst our Company, the Selling Shareholder and the BRLMs pursuant to which certain arrangements are agreed to in relation to the Issue |
| Issue Price | The final price (net of Employee Discount and Retail Discount, as applicable) at which Equity Shares will be issued and Allotted to the successful Bidders in terms of the Red Herring Prospectus and the Prospectus. The Issue Price will be decided by our Company and the Selling Shareholder, in consultation with the BRLMs on the Pricing Date |
| Monitoring Agency | IFCI Limited |
| Mutual Funds | Mutual funds registered with SEBI under the SEBI (Mutual Funds) Regulations, 1996 |
| Mutual Funds Portion | 5% of the QIB Portion equal to a minimum of 20,959,467 Equity Shares available for allocation to Mutual Funds only, out of the QIB Portion on a proportionate basis |
| Net Issue | Issue less the Employees Reservation Portion, consisting of 838,378,646 Equity Shares to be Allotted at the Issue Price |
| Net Proceeds | Proceeds of the Issue that are available to our Company, excluding Issue expenses and the proceeds of the Offer for Sale |
| Non-Institutional Bidders | All Bidders, including sub-accounts of FIIs registered with SEBI, which are foreign corporate or foreign individuals, that are not QIBs or Retail Bidders and who have Bid for Equity Shares for an amount more than ₹ 100,000 |
| Non-Institutional Portion | The portion of the Net Issue, being not less than 15% of the Net Issue or 125,756,797 Equity Shares, available for allocation to Non-Institutional Bidders |
| Non-Resident Indian or NRI | A person resident outside India, who is a citizen of India or a person of Indian origin and will have the same meaning as ascribed to such term in the Foreign Exchange Management (Deposit) Regulations, 2000, as amended |
| Offer for Sale | Offer of 420,884,123 Equity Shares being offered by the Selling Shareholder pursuant to the Red Herring Prospectus |
| Price Band | Price band of a minimum price (Floor Price) of ₹ [●] and a maximum price (Cap Price) of ₹ [●], including revisions thereof. The Price Band, Retail Discount, Employee Discount and the minimum Bid lot for the Issue will be decided by our Company and the Selling Shareholder, in consultation with the BRLMs and advertised in the Mumbai edition and Delhi edition of the *Financial Express* and the Delhi edition of the *Jansatta* at least one Working Day prior to the Bid Opening Date, with the relevant financial ratios calculated at the Floor Price and at the Cap Price |
| Pricing Date | The date on which our Company and the Selling Shareholder, in consultation with the BRLMs will finalize the Issue Price |
| Prospectus | The Prospectus to be filed with the RoC in terms of Section 60 of the Companies Act, containing, among other things, the Issue Price that is |

| Term | Description |
| --- | --- |
| | determined at the end of the Book Building Process, the size of the Issue and certain other information and including any addenda or corrigenda thereof |
| Public Issue Account | The account to be opened with the Bankers to the Issue to receive monies from the Escrow Account(s) and the ASBA Accounts, on the Designated Date |
| Qualified Institutional Buyers or QIBs | Public financial institutions as specified in Section 4A of the Companies Act, FIIs and sub-accounts registered with SEBI, other than a sub-account which is a foreign corporate or foreign individual, scheduled commercial banks, Mutual Funds, VCFs and FVCIs registered with SEBI, multilateral and bilateral development financial institutions, state industrial development corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds (subject to applicable law) with minimum corpus of ₹ 250 million and pension funds with minimum corpus of ₹ 250 million, the National Investment Fund set up by resolution F. No. 2/3/2005-DD-II dated November 23, 2005 of Government of India published in the Gazette of India and insurance funds set up and managed by army, navy or air force of the Union of India |
| QIB Portion | The portion of the Issue being up to 50% of the Net Issue or 419,189,323 Equity Shares to be Allotted to QIBs |
| Red Herring Prospectus or RHP | This Red Herring Prospectus dated October 20, 2010 issued in accordance with Section 60B of the Companies Act, which des not have complete particulars of the Issue Price, Employee Discount, Retail Discount and the Price Band and which becomes the Prospectus after filing with the RoC after the Pricing Date |
| Refund Accounts | Accounts opened with Escrow Collection Banks from which refunds of the whole or part of the Bid Amount (excluding the ASBA Bidders), if any, will be made |
| Refund Banks | Escrow Collection Banks in which an account is opened and from which a refund of the whole or part of the Bid Amount, if any, will be made, in this case being, ICICI Bank Limited, IDBI Bank Limited and HDFC Bank Limited |
| Registrar to the Issue/Registrar | Karvy Computershare Private Limited |
| Registrar's Agreement | The agreement dated October 20, 2010 entered into amongst our Company, the Selling Shareholder and the Registrar to the Issue pursuant to which certain arrangements are agreed to in relation to the Issue |
| Retail Bidders | Bidders (including HUFs and NRIs), other than Employees submitting Bids under the Employee Reservation Portion, who have Bid for Equity Shares for an amount less than or equal to ₹ 100,000 in any of the bidding options in the Net Issue |
| Retail Discount | The difference of ₹ [●] between the Issue Price and the differential lower price at which our Company and the selling shareholder has decided to Allot the Equity Shares to Retail Bidders |
| Retail Portion | The portion of the Issue, being not less than 35% of the Net Issue, or 293,432,526 Equity Shares at the Issue Price, available for allocation to Retail Bidders |
| Revision Form | The form used by the Bidders to modify the quantity of Equity Shares or the Bid Amount, as applicable, in any of their Bid cum Application Forms, ASBA Bid cum Application Forms or any previous Revision Form(s) |
| Self Certified Syndicate Bank or SCSB | Banks which are registered with SEBI under the SEBI (Bankers to an Issue) Regulations, 1994, and offer services of ASBA, including blocking of ASBA Accounts, a list of which is available on http://www.sebi.gov.in/pmd/scsb.pdf |
| Stock Exchanges | The BSE and the NSE |

| Term | Description |
|---|---|
| Syndicate | Collectively, the BRLMs and the Syndicate Members |
| Syndicate Agreement | The agreement dated October 20, 2010 entered into amongst the Syndicate, the Selling Shareholder and our Company in relation to the collection of Bids (excluding Bids from the ASBA Bidders) in this Issue |
| Syndicate Members | SBICAP Securities Limited and India Infoline Limited |
| Transaction Registration Slip or TRS | The slip or document issued by a member of the Syndicate to a Bidder as proof of registration of the Bid |
| Underwriters | The BRLMs and the Syndicate Members |
| Underwriting Agreement | The Agreement between the Underwriters, our Company and the Selling Shareholder to be entered into, on or after the Pricing Date |
| U.S. person | As defined in Regulation S under the U.S. Securities Act of 1933 |
| U.S. QIB | U.S. persons that are "qualified institutional buyers", as defined in Rule 144A under the U.S. Securities Act of 1933 |
| Working Day | All days other than a Sunday or a public holiday (except in reference to announcement of Price Band and Bidding Period, where a working day means all days other than a Saturday, Sunday or a public holiday), on which commercial banks in Mumbai are open for business |

### Conventional and General Terms

| Term | Description |
|---|---|
| Act or Companies Act | Companies Act, 1956 |
| AFC | Annual Fixed Cost |
| ASSOCHAM | Associated Chambers of Commerce and Industry |
| BSE | The Bombay Stock Exchange Limited |
| CAGR | Compounded Annual Growth Rate |
| CDSL | Central Depository Services (India) Limited |
| CIA Factbook | United States Central Intelligence Agency Factbook |
| Connectivity Regulations | Central Electricity Regulatory Commission (Grant of Connectivity, Long-term Access and Medium-term Open Access in inter-State Transmission and related matters) Regulations, 2009 |
| CPSU | Central Public Sector Undertakings |
| Crore | 10 million |
| CSR | Corporate Social Responsibility |
| Depositories | NSDL and CDSL |
| Depositories Act | Depositories Act, 1996 |
| Depository Participant or DP | A depository participant as defined under the Depositories Act |
| DoE | Department of Expenditure |
| DoT | Department of Telecommunications |
| DPE | Department of Public Enterprises, Government of India |
| ECS | Electronic clearing service |
| EGM | Extraordinary general meeting of the shareholders of a company |
| Electricity Act | Electricity Act, 2003 |
| EPA | Environment (Protection) Act, 1986 |
| EPF Act | Employees (Provident Fund and Miscellaneous Provisions) Act, 1952 |
| EPS | Earnings per share, i.e., profit after tax for a fiscal year divided by the weighted average number of equity shares during the fiscal year |
| FCNR Account | Foreign Currency Non-Resident Account established in accordance with the FEMA |
| FDI | Foreign direct investment |
| FEMA | Foreign Exchange Management Act, 1999, together with rules and regulations thereunder |
| FEMA Overseas Investment Regulations | Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000 |
| FIIs | Foreign Institutional Investors (as defined under the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995) registered with SEBI |

| Term | Description |
|---|---|
| FIPB | Foreign Investment Promotion Board |
| Fiscal 2004-2009 Regulations | Tariff regulations of Fiscal 2004-2009 |
| Forest Conservation Act | Forest (Conservation) Act, 1980 |
| FPO | Further Public Offering |
| FVCI | Foreign Venture Capital Investors (as defined under the SEBI (Foreign Venture Capital Investors) Regulations, 2000) registered with SEBI |
| GIR No | General Index Register Number |
| GoI or Government | Government of India |
| GoT | Government of Tripura |
| HCPTC | High Capacity Power Transmission Corridors |
| HUF | Hindu Undivided Family |
| IFRS | International Financial Reporting Standards |
| ID Act | Industrial Disputes Act, 1947 |
| IPP | Independent power producer |
| I.T. Act | Income Tax Act, 1961 |
| Indian GAAP | Generally Accepted Accounting Principles in India |
| Indian Telegraph Act | Indian Telegraph Act, 1885 |
| IPO | Initial Public Offer |
| Industrial Policy | The policy and guidelines relating to industrial activity in India, issued by the Government of India from time to time |
| Insurance Regulatory and Development Authority/ IRDA | Statutory body constituted under the Insurance Regulatory and Development Authority Act, 1999 |
| Km | Kilometers |
| LA Act | Land Acquisition Act, 1894 |
| LAO | Land Acquisition Officer |
| LEO | Labour Enforcement Officer |
| M | Metres |
| MCA | Ministry of Corporate Affairs, GoI |
| Minimum Wages Act | Minimum Wages Act, 1948 |
| MoEF | Ministry of Environment and Forests, GoI |
| MoF | Ministry of Finance, GoI |
| MoDoNER | Ministry of Development of North Eastern Region, GoI |
| MoP | Ministry of Power, GoI |
| MoU | Memorandum of Understanding |
| N/A | Not Applicable |
| NEFT | National Electronic Fund Transfer |
| Non-Resident or NR | A person resident outside India, as defined under the FEMA and includes a Non-Resident Indian |
| NRE Account | Non-Resident External Account established in accordance with the FEMA |
| NRO Account | Non-Resident Ordinary Account established in accordance with the FEMA |
| NSDL | National Securities Depository Limited |
| NSE | National Stock Exchange of India Limited |
| OCB | A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs including overseas trusts in which not less than 60% of the beneficial interest is irrevocably held by NRIs directly or indirectly and which was in existence on October 3, 2003 and immediately before such date was eligible to undertake transactions pursuant to the general permission granted to OCBs under the FEMA. OCBs are not allowed to invest in this Issue |
| OECD | Organization for Economic Cooperation and Development |
| OTS | One Time Settlement |
| PAN | Permanent Account Number allotted under the I.T. Act |

| Term | Description |
|---|---|
| Power Transmission Systems Ordinance | National Thermal Power Corporation Limited, the National Hydro Electric Power Corporation Limited and the North-Eastern Electric Power Corporation Limited (Acquisition and Transfer of Power Transmission Systems) Ordinance, 1993 |
| RBI | Reserve Bank of India |
| Re. | One Indian Rupee |
| RoC | Registrar of Companies, National Capital Territory Delhi and Haryana |
| Rs. or ₹ | Indian Rupees |
| RTGS | Real Time Gross Settlement |
| RTI | Right to Information |
| SCRA | Securities Contract (Regulations) Act, 1956 |
| SCRR | Securities Contracts (Regulation) Rules, 1957 |
| SEBI | Securities and Exchange Board of India constituted under the SEBI Act |
| SEBI Act | Securities and Exchange Board of India Act, 1992 |
| SEBI Insider Trading Regulations | SEBI (Prohibition of Insider Trading) Regulations, 1992 |
| SEBI Regulations | SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 |
| Sharing of Charges and Losses Regulations | Central Electricity Regulatory Commission (Sharing of Inter State Transmission Charges and Losses) Regulations, 2010 |
| STT | Securities Transaction Tax |
| Supreme Court | Supreme Court of India |
| Tariff Order | Telecommunication Tariff Order, 1999 as amended by the Telecommunication Tariff (Thirty Sixth Amendment) Order 2005 |
| Tariff Regulations/Fiscal 2010-2014 Regulations | Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009 |
| TRAI Act | Telecom Regulatory Authority of India Act, 1997 |
| US GAAP | Generally accepted accounting principles in the United States of America |
| VCF(s) | Venture Capital Funds as defined and registered with SEBI under the SEBI (Venture Capital Fund) Regulations, 1996 |
| Wireless Telegraphy Act | Indian Wireless Telegraphy Act, 1933 |
| Workmen's Compensation Act | Workmen's Compensation Act, 1923 |

## Industry Related Terms

| Term | Description |
|---|---|
| APDRP | Accelerated Power Development and Reform Programme |
| ARPU | Average Revenue Per User |
| ATC | Annual Transmission Service Charge |
| ATE | Appellate Tribunal for Electricity |
| BEE | Bureau of Energy Efficiency |
| BOO | Build, own and operate |
| BOOT | Build, own, operate and transfer |
| BPTA | Bulk Power Transmission Agreement |
| CDM | Clean Development Mechanism |
| CEA | Central Electricity Authority |
| CERC | Central Electricity Regulatory Commission |
| CMTS | Cellular Mobile Telephone Service |
| CSPU | Central Sector Power Utilities |
| CTU | Central Transmission Utility |
| DPR | Detailed Project Report |
| DWDM | Dense Wave Division Multiplexes |
| EBITDA | Earning before interest, tax, depreciation and amortization |
| ERS | Emergency Restoration Systems |
| FERV | Foreign Exchange Rate Variation |
| Ha | Hectares |
| HVDC | High voltage direct current |

| Term | Description |
|---|---|
| IUC | Interconnection Usage Charges |
| IPMCS | Integrated Project Management and Control System |
| IPTC | Independent Private Transmission Company |
| ISTS | Interstate and Inter- regional electric power transmission system |
| KV | Kilovolts |
| KW | Kilo Watt |
| MVA | Mega Volt Ampere |
| MW | Mega Watt |
| NEP | National Electricity Policy |
| NKN | National Knowledge Network |
| NLDC | National Load Despatch Centre |
| NLDO | National Long Distance Operator |
| OPGW | Optical Ground Wire |
| REC | Rural Electrification Corporation Limited |
| Rural Electrification Programme | Rajiv Gandhi Grameen Vidyutikaran Yojana programme for rural electrification |
| RGGVY | Rajiv Gandhi Grameen Vidyutikaran Yojana |
| RLDC | Regional Load Despatch Centre |
| ROE | Return on Equity |
| SDH | Synchronous Digital Hierarchy |
| SEB | State Electricity Board |
| SERC | State Electricity Regulatory Commissions |
| SLDC | State Load Despatch Centre |
| SPUs | State Power Utilities comprising of transmission and distribution companies formed pursuant to the unbundling of SEBs |
| STU | State Transmission Utility |
| TDSAT | Telecom Disputes Settlement and Appellate Tribunal |
| T&D | Transmission and Development |
| TRAI | Telecom Regulatory Authority of India |
| UAS | Unified Access Service |
| UCPTT | Uniform Common Pool Transmission Tariff |
| UHVDC | Ultra High Voltage Direct Current |
| UI | Unschedule Interchange |
| ULDC | Unified Load Despatch Centre |
| UMPPs | Ultra Mega Power Projects |

The words and expressions used but not defined in this Red Herring Prospectus will have the same meaning as assigned to such terms under the Companies Act, SEBI Act, the SCRA, the Depositories Act and the rules and regulations made thereunder.

Notwithstanding the foregoing, terms in "***Main Provisions of the Articles of Association***", "***Statement of General Tax Benefits***", "***Regulations and Policies in India***", "***Financial Statements***" and "***Outstanding Litigation and Material Developments***" on pages 408, 63, 118, 184 and 300 respectively, will have the same meaning given to such terms in these respective sections.

## CERTAIN CONVENTIONS, USE OF FINANCIAL INFORMATION AND MARKET DATA AND CURRENCY OF PRESENTATION

### Financial Data

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from our financial statements prepared in accordance with Indian GAAP and the Companies Act and in accordance with the SEBI Regulations for the six month period ended September 30, 2010, Fiscals 2010 and 2009.

Our Fiscal year commences on April 1 and ends on March 31, so all references to a particular Fiscal year are to the twelve-month period ended March 31 of that year. In this Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding off.

There are significant differences between Indian GAAP, U.S. GAAP and IFRS. We urge you to consult your own advisors regarding such differences and their impact on our financial data. Accordingly, the degree to which the Indian GAAP financial statements included in this Red Herring Prospectus will provide meaningful information is entirely dependent on the reader's level of familiarity with Indian GAAP. Any reliance by persons not familiar with Indian accounting practices on the financial disclosures presented in this Red Herring Prospectus should accordingly be limited.

All references to "**India**" contained in this Red Herring Prospectus are to the Republic of India, all references to the "**U.S.**", "**USA**", or the "**United States**" are to the United States of America.

Except where specified, in this Red Herring Prospectus, all figures have been expressed in "**million**" which means "10 lakhs"; and a "billion" means "10,000 lakhs".

### Industry and Market Data

Unless stated otherwise, the industry and market data used throughout this Red Herring Prospectus has been obtained from industry publications and government data. These publications generally state that the information contained therein has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Accordingly, no investment decision should be made on the basis of such information. Although we believe industry data used in this Red Herring Prospectus is reliable, it has not been independently verified. Data from these sources may also not be comparable. The extent to which industry and market data used in this Red Herring Prospectus is meaningful depends on the readers' familiarity with and understanding of the methodologies used in compiling such data.

This data has not been prepared or independently verified by us or the BRLMs or any of their respective affiliates or advisors. Such data involves risks, uncertainties and numerous assumptions and is subject to change based on various factors, including those discussed in "***Risk Factors***" on page xiv. Accordingly, investment decisions should not be based on such information.

In accordance with the SEBI Regulations, we have included in the section titled "***Basis for Issue Price***" on page 60. Such information has been derived from publicly available sources and our Company has not independently verified such information.

### Currency and Units of Presentation

All references to "**Rupees**" or "**₹**" or "**Rs.**" are to Indian Rupees, the official currency of the Republic of India. All references to "**U.S. Dollar**" or "**USD**" or "**US$**" are to United States Dollar, the official currency of the United States of America.

## Exchange Rates

This Red Herring Prospectus contains translations of certain U.S. Dollar and other currency amounts into Indian Rupees that have been presented solely to comply with the requirements of item (VIII) sub-item (G) of Part A of Schedule VIII of the SEBI Regulations. These convenience translations should not be construed as a representation that those U.S. Dollar or other currency amounts could have been, or can be converted into Indian Rupees, at any particular rate or at all.

The exchange rates of the respective foreign currencies as on March 31, 2009, March 31, 2010, September 30, 2009 and September 30, 2010 are provided below.

*(₹)*

| Currency | Exchange Rate as on March 31, 2010 | Exchange Rate as on March 31, 2009 | Exchange Rate as on September 30, 2010 | Exchange Rate as on September 30, 2009 |
|---|---|---|---|---|
| 1 US$ | 45.14 | 50.95 | 44.92 | 48.04 |

*Source: RBI Reference Rate*

## NOTICE TO INVESTORS

**United States**

The Equity Shares have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Red Herring Prospectus. Any representation to the contrary is a criminal offence in the United States and may be a criminal offence in other jurisdictions.

The Equity Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Our Company has not registered and does not intend to register under the U.S. Investment Company Act of 1940, as amended (the "**U.S. Investment Company Act**") in reliance upon Section 3(c)(7) thereof.

Accordingly, the Equity Shares are being offered and sold (i) in the United States only to, and only to U.S. persons that are, "qualified institutional buyers" (as defined in Rule 144A under the U.S. Securities Act ("**Rule 144A**") and referred to in this Red Herring Prospectus as "U.S. QIBs"; which, for the avoidance of doubt, does not refer to a category of institutional investors defined under applicable Indian regulations and referred to in the Red Herring Prospectus as "**QIBs**") that are also "qualified purchasers" ("**QPs**") (as defined in Section 2(a)(51) of the U.S. Investment Company Act and the rules and regulations thereunder) acting for its own account or for the account of another U.S. QIB that is a QP (and meets the other requirements set forth herein), in reliance on the exemption from registration under the U.S. Securities Act provided by Rule 144A or other available exemption and in reliance upon Section 3(c)(7) of the U.S. Investment Company Act and (ii) outside the United States to non-U.S. persons in reliance on Regulation S.

Each purchaser of Equity Shares inside the United States or who is a U.S. person will be required to represent and agree, among other things, that such purchaser (i) is a U.S. QIB and a QP; and (ii) will only reoffer, resell, pledge or otherwise transfer the Equity Shares in an "offshore transaction" in accordance with Rule 903 or Rule 904 of Regulation S and under circumstances that will not require our Company to register under the U.S. Investment Company Act.

Each purchaser of Equity Shares outside the United States that is not a U.S. person will be required to represent and agree, among other things, that such purchaser is a non-U.S. person acquiring the Equity Shares in an "offshore transaction" in accordance with Regulation S.

**European Economic Area**

This Red Herring Prospectus has been prepared on the basis that all offers of Equity Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the European Economic Area ("**EEA**"), from the requirement to produce a prospectus for offers of Equity Shares. The expression "Prospectus Directive" means Directive 2003/71/EC of the European Parliament and Council and includes any relevant implementing measure in each Relevant Member State (as defined below). Accordingly, any person making or intending to make an offer within the EEA of Equity Shares which are the subject of the placement contemplated in this Red Herring Prospectus should only do so in circumstances in which no obligation arises for our Company or any of the Underwriters to produce a prospectus for such offer. None of our Company and the Underwriters have authorised, nor do they authorise, the making of any offer of Equity Shares through any financial intermediary, other than the offers made by the Underwriters which constitute the final placement of Equity Shares contemplated in this Red Herring Prospectus.

# FORWARD-LOOKING STATEMENTS

This Red Herring Prospectus contains certain "forward-looking statements". These forward looking statements generally can be identified by words or phrases such as "aim", "anticipate", "believe", "expect", "estimate", "intend", "objective", "plan", "project", "will", "will continue", "will pursue" or other words or phrases of similar import. Similarly, statements that describe our objectives, strategies, plans or goals are also forward-looking statements. All forward looking statements are subject to risks, uncertainties and assumptions about us that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement.

Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- regulatory changes pertaining to the industries in India in which our Company has its businesses and our ability to respond to them;
- our ability to successfully implement our strategy, our growth and expansion;
- regulatory changes in the power sector;
- technological changes;
- our exposure to market risks;
- general economic and political conditions in India and which have an impact on our business activities or investments;
- the monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the performance of the financial markets in India and globally;
- changes in domestic laws, regulations and taxes; and
- changes in competition in our industry.

For further discussion of factors that could cause our actual results to differ, see "***Risk Factors***" and "***Management Discussion and Analysis of Financial Condition and Results of Operations***" on pages xiv and 254, respectively. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither our Company, the Selling Shareholder nor the BRLMs nor the Syndicate Members nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, our Company, the Selling Shareholder and the BRLMs will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges for the Equity Shares under Fresh Issue.

## SECTION II - RISK FACTORS

*An investment in the Equity Shares involves a high degree of risk. You should carefully consider all information in this Red Herring Prospectus, including the risks and uncertainties described below, before making an investment in the Equity Shares. The risks described below are not the only ones relevant to the countries and the industries in which our Company operates, our Company or the Equity Shares. Additional risks not presently known to our Company or that we currently deem immaterial may also impair our Company's business operations. To obtain a complete understanding of our business, you should read this section in conjunction with the sections titled "**Our Business**" and "**Management's Discussion and Analysis of Financial Conditions and Results of Operations**" on pages 82 and 254, respectively, as well as other financial information contained in this Red Herring Prospectus. If any or some combination of the following risks or any of the other risks and uncertainties discussed in this Red Herring Prospectus actually occur, our business, financial condition and results of operations could suffer, the trading price of the Equity Shares and the value of your investment in the Equity Shares could decline, and you may lose all or part of your investment.*

*Unless specified or quantified in the relevant risk factors below, we are not in a position to quantify the financial or other implication of any of the risks described in this section.*

*Unless otherwise stated, the financial information of our Company used in this section is derived from our unconsolidated audited financial statements for Fiscals 2009 and 2010 and the unconsolidated, unaudited, limited review financial statements for the six months ended September 30, 2010.*

### INTERNAL RISKS

***1. Our Company is presently involved in seven proceedings of criminal nature, and any adverse decision may have a significant adverse effect on our business and results of operations.***

We are presently involved in seven criminal proceedings which have been filed against us before various forums. Amongst the cases filed against us, two cases are pending before the Chief Judicial Magistrate, Bhabua and the Chief Judicial Magistrate, Muzafferpur in relation to breach of the Contract Labour (Regulation and Abolition) Act, 1970. Additionally, there are two criminal complaints filed against us before the Chief Judicial Magistrate, Nalanda and Barh under various sections of the Indian Penal Code. Further, there are three criminal complaints filed against certain of our employees and officials before the sub-Judicial Magistrate, Bhubaneswar and Dharamgarh and the Judicial Magistrate, First Class, Thane in relation to violation of the provisions of the Industrial Disputes Act, 1947 ("**ID Act**"), Code of Criminal Procedure, 1973 and the Maharashtra Private Security Guards (Regulation of Employment Amendment) Scheme, 2005, respectively. For details of these cases, see *"**Outstanding Litigation and Material Developments**"* on page 300. We cannot provide any assurance that these matters will be decided in our favour. Further, there is no assurance that similar proceedings will not be initiated against us in future.

***2. Our Company is involved in certain legal, regulatory and arbitration proceedings that, if determined against us, may have an adverse impact on our financial condition.***

There are certain outstanding legal proceedings against our Company pending at various levels of adjudication before various courts, tribunals, authorities and appellate bodies in India. Should any new development arise, such as change in applicable laws or rulings against us by the appellate courts or tribunals, we may need to make provisions in our financial statements, which may increase our expenses and current liabilities. We also receive requests for information under the Right to Information Act, 2005 from various third parties from time to time. In addition our Company is presently and in future may be subject to risks of litigation including public interest litigation, in relation to environment impact of our projects or construction activities of our projects. We cannot give you any assurance that these legal proceedings will be decided in our favour. Any adverse decision may have a significant effect on our business including the financial condition of our Company, delay in implementation of our current or future project and results of operations. Details of the proceeding that have been initiated against our Company and the amounts claimed against us in these proceedings, to the extent ascertainable, are set forth below:

*(in ₹ million)*

| Nature of Proceedings | Number of Proceedings | Amount Involved |
|---|---|---|
| Criminal | 7 | - |
| Public Interest Litigation and Environment matters | 8 | - |
| Income Tax | 8 | * |
| Service tax and Other Tax matters | 46 | 1,954.2 |
| Statutory Notices | 7 | - |
| Consumer Cases | 9 | 0.5 |
| CERC | 16 | - |
| Contempt Cases | 4 | - |
| Land Acquisition | 596 | 5,993.1 |
| Compensation Cases for Displacement of Trees | 1,770 | 3,402.4 |
| Civil | 204 | 41.8 |
| Labour and Service Matters | 59 | 8.4 |
| Arbitration | 52 | 792.4 |
| RTI Notice | 1 | - |
| Miscellaneous | 31 | 18.2 |
| **Total** | **2,812** | **12,218.5** |

** The total amount claimed has been paid under dispute and is being contested by our Company. The aggregate amount claimed is hence not included here.*

For details of these cases, see *"**Outstanding Litigation and Material Developments**"* on page 300.

Further, investors may note that certain Directors and officials of our Company, including Mr. S.K. Chaturvedi, Chairman and Managing Director of our Company have been impleaded in certain of these cases in their respective official capacities. For details of these cases, see *"**Outstanding Litigation and Material Developments**"* on page 300.

***3. Most of our revenue is derived from the transmission of power to the State Power Utilities ("SPUs"), and many of these entities have had weak credit histories in the past.***

In accordance with the terms of allocation letters issued by the GoI, we are obliged to undertake the transmission of electricity to SPUs from Central Sector power generation stations through our transmission system. Revenues from transmission charges accounted for over 90% of our total revenue from operations for Fiscal 2009, Fiscal 2010 and the six month ended September 30, 2010 and the SPUs are our largest customers. The SPUs also represent substantially all of our sundry debtors.

The SPUs include certain SEBs, and also the entities that have been created by the unbundling of the remaining SEBs. The SEBs had weak credit histories in the past. The financial performance of the SEBs deteriorated significantly during the decade prior to the one time settlement ("**OTS**") of their past-due amounts under a "securitisation scheme" in 2003. The estimated commercial losses of the SPUs in Fiscal 2009 were approximately ₹ 526,230 million. The OTS introduced several measures that have improved the financial condition of the SEBs and have given protection to certain of their creditors, including us. These measures included the issuance to us of ₹ 18.62 billion in bonds and ₹ 1.54 billion as long term advances to "securitize" our past due receivables from the SEBs. In addition, our agreements with the SPUs are backed by letters of credit that typically cover 105% of the SPUs' preceding twelve months average billings with us. We cannot, however, assure you that as a result of the OTS, the creditworthiness of the SPUs will remain strong. Nor can we assure you that we would be able to recover all the outstanding amounts due to us from SPUs if their creditworthiness were to deteriorate again. In any such case, our financial position could be adversely affected.

***4. Six transmission projects for which we intend to utilize the Net Proceeds have been delayed.***

The completion of the Transmission System for Barh Generation Project and the Transmission System for Parbati – III HEP, both generation-linked projects, have suffered delays of approximately 18 months and 17 months, respectively, as the commissioning of the power generation projects have been delayed. In addition, we anticipate that the completion of the Transmission System associated with the Sasan UMPP may be delayed due to a delay in the commissioning of the associated power generation project. Although CERC may, under the Tariff Regulations, approve the commercial operation of our transmission systems prior to such transmission projects coming into regular service, where the delay is not attributable to our Company, our contractors or our suppliers, we cannot assure you that we will be able to recover the tariffs on these projects until the completion of the associated generation projects, due to which our returns on investments in these projects would be delayed.

Further, the completion of the Western Region Strengthening Scheme – II has been delayed by 8 months due to certain difficulties faced by our Company with respect to resolving the right of way and in obtaining the requisite clearance from forest department authorities. The completion of the Strengthening of East-West Transmission Corridor has been delayed by approximately 18 months due to delay in obtaining the requisite funding from the World Bank, as well as certain difficulties faced by our Company with respect to resolving the right of way and in obtaining the requisite clearance from forest department authorities. The completion of the Western Region Strengthening Scheme – IX has been delayed by approximately 14 months due to delay in receiving transformers from our supplier. Because we will not be able to recover the tariffs on these projects until commercial operation begins, our returns on investment will be delayed.

***5. Our new transmission projects or new projects and expansion plans are subject to a number of contingencies.***

Our new projects and expansion plans are subject to a number of contingencies, including changes in laws and regulations, governmental action or inaction, delays in obtaining permits or approvals, accidents, natural calamities and other factors beyond our control. In addition, we must obtain right of way to expand our transmission lines and find suitable, available land on which to construct substations. Further, most of our projects are dependent on the availability of competent external contractors for construction, delivery and commissioning, as well as the supply and testing of equipment. We cannot assure you that the performance of our external contractors will always meet our terms and conditions or performance parameters. If the performance of contractors is inadequate to our requirements, this could result in incremental cost and time overruns which in turn could adversely affect our new projects and expansion plans. Although, our contractors furnish performance guarantees, generally for 12-18 months, we cannot assure you that in the event of poor execution of contracts we would always be able to enforce the performance guarantees from these contractors. Also, due to the significant level of general construction activity in India today, there is a huge demand for construction companies, and the availability of competent construction companies may be limited. Further, if we are not able to award our projects to competent contractors on a timely basis, or on terms that provide for the timely and cost-effective execution of the project, our projects may be delayed and our returns on those projects may be affected.

In addition, as part of our growth strategy, we may seek to acquire businesses, technologies and products. We may choose to incur additional debt to fund any such expansion plans. Nevertheless, we may fail to complete such acquisitions, or to realize the anticipated benefits of such acquisitions, and may incur unforeseen costs. This could negatively affect our business.

Further, we are in the process of transferring our power system operations segment to our Subsidiary and we have a minority investment in nine joint ventures. Our Subsidiary is yet to commence commercial operations and therefore has not made any profits. Only two of our nine joint ventures have commenced operations and returned a profit and one of our joint ventures is in the process of winding up. If our Subsidiary or joint ventures are not profitable, our financial condition and results of operations may be adversely affected. For further details on our Subsidiary and joint venture companies, see "***History and Certain Corporate Matters***" on page 130.

6. ***Our expansion plans require significant capital expenditure. If we are unable to obtain the necessary funds, our growth plans could be adversely affected.***

We will need significant additional capital to finance our business plan and in particular, our plans for transmission infrastructure expansion. Based on generation capacity targeted under the Eleventh Five Year Plan, we plan on capital expenditure of an aggregate amount up to ₹ 295,594.8 million for expansion in Fiscal 2011 and Fiscal 2012, to further develop the national grid, including expanding inter-regional transmission systems, system strengthening schemes and transmission systems for evacuation of power from central sector generation projects and UMPPs. In addition, CERC accorded regulatory approval to us to proceed with the execution of nine high capacity transmission corridors with a government-approved cost of ₹ 580,610 million. We have in the past been able to finance our projects on competitive terms due in part to our Company achieving a favorable credit rating. Nevertheless, there can be no assurance that we will achieve such financing in a timely manner and on favourable terms, or at all, or maintain a favourable credit rating. Future debt financing, if available, may result in increased finance charges, increased financial leverage, decreased income available to fund further acquisition and expansions and the imposition of restrictive covenants on our business and operations. In addition, future debt financing may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If we fail to generate or obtain sufficient additional capital in the future, we could be forced to reduce or delay the planned expansion projects or other capital expenditures.

In addition, due to the number of large-scale infrastructure projects currently under development in India and increased lending by banks and institutions to these projects which has resulted in domestic funds not being available or being available on unattractive terms. Therefore, we may be required to seek funding internationally, resulting in unattractive terms and conditions and exposure to higher interest rates and foreign exchange risks. If the funding requirements of a particular expansion project increase, we will need to look for additional sources of finance, which may not be readily available, or may not be available on attractive terms, which may have an adverse effect on the profitability of that project. Our business, financial condition, results of operations and prospects may be adversely affected by any delay or failure to successfully commission these projects.

7. ***If we are unable to manage our growth effectively, our business and financial results could be adversely affected.***

We intend to continue to rapidly increase our capacity to maintain and grow our leadership position and remain the largest Indian power transmission company. As at September 30, 2010, we had 68 transmission projects in various stages of implementation. These projects involve approximately 40,000 circuit kilometers of transmission lines and 65 substations with a total power transformation capacity of approximately 106,000 MVA. We are also in the process of adopting a higher voltage level system for our network.

We expect that the execution of new transmission and substation projects and our growth strategy will place significant strains on our management, financial and other resources. For instance, in order to manage the execution of new transmission and substation projects and growth effectively, we must implement and improve operational systems, procedures and internal controls on a timely basis. If we fail to implement and improve these systems, procedures and controls on a timely basis, or if there are weaknesses in our internal controls that would result in inconsistent internal standard operating procedures, we may not be able to meet our expected schedule of project implementation, hire or retain employees, pursue new business, complete future strategic agreements or operate our business effectively. There can be no assurance that our existing or future management, operational and financial systems, procedures and controls will be adequate to support future operations or establish or develop business relationships beneficial to our future operations.

Further, our continued expansion increases the challenges involved in financial and technical management, recruitment, training and retaining sufficient skilled technical and management personnel, and developing and improving our internal administrative infrastructure. We may intend to evaluate and consider expansion in the future to pursue existing and potential market opportunities. Our inability to manage our business plan effectively and execute our growth strategy could have an adverse effect on our operations, results, financial condition and cash flows. In addition, due to such inability to manage such challenges, we may also be unable to meet the annual performance targets set by the GoI pursuant to an annual Memorandum of Understanding that we enter into with the GoI. If we are unable to successfully implement our business plan and growth strategy, our business, results of operations and financial condition would be materially and adversely affected.

8. ***Our flexibility in managing our operations is limited by the regulatory environment in which we operate.***

The power industry in India is regulated by laws, rules and directives issued by governmental and regulatory authorities. These laws, rules and directives have changed significantly in recent years. There are likely to be more reforms, such as reforms implemented under the Electricity Act, in the ensuing years. It is expected that many of these reforms will take time to be implemented. We cannot assure you that these reforms, including changes to the current regulatory bodies or to the existing rules and directives, will be favourable to our business. If such changes are not favourable, our business could be adversely affected.

For example, we currently undertake each new transmission project with the expectation that the tariffs we will be allowed to recover from customers will compensate us on a cost-plus basis for undertaking the project. However, the tariff policy notified by the GoI on January 6, 2006 provides that tariffs on all transmission projects to be developed by us after January, 2011, or when CERC is satisfied that the conditions are appropriate, will be decided on the basis of competitive bidding. If we are unable to adapt to a regulatory regime in which new transmission projects are approved for the interested developer on the basis of competitive bidding, then we may not be able to take on new projects and make them work for us on a commercial basis. This could have an adverse effect on our growth plans.

For a more detailed description of the current regulatory bodies and the existing laws, rules and directives, see "***Regulations and Policies in India***" on page 118.

9. ***Our tariffs could be modified in the future in ways that could have an adverse effect on our results of operations, including through a reduction in our return on equity.***

Pursuant to the Electricity Act, a new tariff policy was notified by the GoI on January 6, 2006. CERC is to be guided by this policy when specifying the terms and conditions of particular tariffs. Our current tariffs should in general remain in place until March 31, 2014. In the event, however, that the current tariff policy changes or CERC modifies our tariffs, our business, financial condition and results of operations could be adversely affected. Any such changes could have the effect of, for example, reducing the return on equity currently allowed to us on our transmission projects, reducing the additional return on equity currently allowed to us on our projects if the projects are completed on time, changing our rate of recovery of operation and maintenance expenditure or setting additional limitations on our ability to recover the cost of assets we develop or services we provide. In the past, CERC decreased our return on equity from 16% to 14% during the period April 1, 2004 to March 31, 2009. Further, the April 27, 2010 and June 16, 2010, CERC orders require that the actual capital expenditure we incur in the development of a project will be benchmarked against an acceptable amount of capital expenditure in order to determine whether the actual capital expenditure incurred was reasonable.

For a discussion of current tariff policy in the electricity industry in India, see "***Regulations and Policies in India***" on page 118.

***10. Transmission projects require a substantial capital outlay and time before any benefits or returns on investments are realized and our returns on investment may be reduced in the event of delays.***

Our transmission projects typically require substantial capital outlays and time before the commencement of commercial operation. As per CERC regulations, we are paid a return on our equity in a transmission project only after the commencement of commercial operation of that project. In the event of a time overrun for a project in which we are investing, returns on our investment in that project will be postponed during the delay. In particular, our failure to complete a generation-linked transmission project, in accordance with the transmission project's agreed schedule, might require us to indemnify the generators up to certain limited amounts. Conversely, if a new transmission project is linked to a new generation project, and the generation project is delayed, our return on our investment in the project may be postponed, subject only to the receipt of limited indemnification amounts from the generator, unless we demonstrate to CERC that our Company, our contractors or our suppliers were not responsible for the delay. As a result of any such delays, or of our inability to demonstrate to CERC that we are not responsible for a delay, our return on investment on the affected transmission project may be lower than originally expected.

The time and costs required to complete a transmission project may be subject to substantial increases due to many factors, including shortages of materials, equipment, technical skills or labour, adverse weather conditions, natural disasters, labour disputes, disputes with contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities and other unforeseeable problems and circumstances. Any of these factors may lead to delays in, or prevent the completion of, our projects. It is possible that in certain circumstances CERC may not approve the increased capital expenditure brought about by a delay on a project when setting the tariff for that project, which would result in a reduction of our return on our investment in that project.

***11. We have substantial borrowings. In the event we were to default in the repayment of our debt or not comply with the terms of our loan agreements, our business and results of operations could be adversely affected.***

As at September 30, 2010, our total outstanding secured borrowings were ₹ 336,568.7 million, our total outstanding unsecured borrowings were ₹ 29,671.5 million and our debt to equity ratio was 2.1:1. Approximately 67.9% and 32.1% of our outstanding debt was from domestic and international sources, respectively. We generally meet our debt service obligations and repay our outstanding borrowings using the cash flow produced under our tariffs, which have built-in provisions for the repayment of our debt. However, for various reasons, there can be no assurance that we will be able to pay our debt obligations on time. In the event that the completion of a new project were to be substantially delayed, we might have to service the debt financing for that project before generating any cash flows from that project. Further, an event of default under our loans could occur due to factors beyond our control, for example if India were to fail to remain a member of the Asian Development Bank or similar multilateral funding agencies. If we fail to meet our debt service obligations or if a default otherwise occurs, our lenders could declare us in default under the terms of our borrowings and accelerate the maturity of our obligations. Any such default and acceleration could have a material adverse effect on our cash flows, business and results of operations.

***12. Our indebtedness and the conditions and restrictions imposed by our financing arrangements could adversely affect our ability to conduct our business and operations.***

There are covenants in the agreements we have entered into with certain banks and financial institutions for our short-term borrowings, medium-term borrowings, bond trust deeds and multilateral lending institutions that require us to obtain written consent from lenders for undertaking certain activities. For instance, under our loan agreement with Indian Overseas Bank our Company was required to obtain the lender's prior written consent for change in capital structure for this Issue. Similarly, prior written consent of the lenders is required for, among other circumstances, undertaking restructuring of our Company, creating any mortgage or charge on any of the secured properties or assets and for assigning or transferring all or any of our rights, benefits or obligations under the loan agreements. In addition, some of our loan agreements contain financial covenants that require us to maintain, among other things, high ratings on our debt from credit rating agencies, a specified debt to equity ratio, borrowings to net worth ratio and EBITDA to interest expense ratio**.** There can be no assurance that we will be able to comply with these financial or other covenants or that we will be able to obtain the consents necessary to take the actions we believe are required to operate and grow our business, in the future. Furthermore, a default on some of our loans may also trigger cross-defaults under some of our other loans. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on us. For details of our financing arrangements, see "***Financial Indebtedness***" on page 282.

***13. The new regulatory framework for sharing of transmission charges may adversely affect our receivables.***

The CERC promulgated the (Sharing of Inter State Transmission Charges and Losses) Regulations, 2010 on June 16, 2010. These regulations will come into force on January 1, 2011 for a period of five years and will implement a "point of connection" method for sharing the transmission charges for the inter-state transmission system in India, replacing the present method of regional postage stamps. These regulations provide that the yearly transmission charges, revenue requirement on account of foreign exchange rate variation ("**FERV**"), changes in interest rates and losses will be shared amongst the users, including larger generating stations, state electricity boards, state transmission utilities, bulk consumers connected directly with the inter-state transmission system and any designated entity representing a physically-connected entity listed above. Under the regulations, we have been made responsible for billing, collecting and disbursing transmission charges for the entire ISTS from all users. If we are unable to collect the charges from all users of the ISTS, including amounts payable to other transmission utilities in the future, our results of operations could be adversely affected.

***14. Our business involves various risks, and we may not have sufficient insurance to cover our economic losses.***

Our operations are subject to a number of risks generally associated with the transmission of electricity. These risks include explosions, fires, earthquakes and other natural disasters, breakdowns, failures or substandard performance of equipment, improper installation or operation of equipment, accidents, acts of terrorism, operational problems, transportation interruptions and labour disturbances. These risks can cause personal injury and loss of life and damage to, or the destruction of, property and equipment, and may result in the limitation or interruption of our business operations and the imposition of civil or criminal liabilities.

We maintain a self-insurance scheme to cover a substantial portion of our business risks. We also maintain insurance policies with outside insurers in respect of risks to certain critical equipment, including our HVDC system and 765 kV substations, and other selected risks. Certain of our telecommunication assets are insured against fire damage. We carry coverage against various other fire and allied perils and against certain risks of theft. We do not carry any insurance against harm to third parties, other than during the course of construction of our projects.

We cannot assure you that if we suffer material losses, our self insurance and insurance arrangements will be sufficient to cover those losses. If our losses are more than our insurance coverage, our result of operations could be adversely affected.

***15. If we are unable to adapt to technological changes, our transmission business could suffer.***

Our future success will depend in part on our ability to respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

We need to continue to invest in new and more advanced technologies and equipment to enable us to respond to emerging power transmission industry standards and practices in a cost-effective and timely manner that is competitive with other transmission and substation projects. The development and implementation of such technology entails significant technical and business risks. We cannot assure you that we will successfully implement new technologies effectively or adapt our processing systems to customer requirements or emerging industry standards. If we are unable, for technical, legal, financial or other reasons, to adapt in a timely manner to changing market conditions, customer requirements or technological changes, our business and financial performance could be adversely affected.

***16. We undertake some of our projects in joint ventures with third parties, which entails certain risks.***

We have minority investments in nine joint ventures. As at September 30, 2010, two of our joint ventures, Powerlinks Transmission Limited and Torrent Powergrid Limited, were operational and one joint venture was in the process of winding up. For further details about our existing joint ventures, see "***History and Certain Corporate Matters***" on page 130.

Investments through joint ventures may, under certain circumstances, involve risks. Joint venture partners may fail to meet their financial or other obligations in respect of the joint venture. Joint venture partners may have business interests or goals that may differ from our business interests or goals, or those of our shareholders. In each of our joint venture arrangements, we have a minority interest. Therefore, our joint venture partner in each of these joint venture arrangements will have effective control with respect to shareholder actions or approvals, except where our affirmative agreement is required under the Companies Act or the terms of the joint venture. Any disputes that may arise between us and our joint venture partners may cause delays in completion or the suspension or abandonment of the project. Some of our joint venture agreements prohibit us from, *inter alia*, acquiring or disposing our shareholding in the joint ventures. All these joint ventures contain clauses wherein we have undertaken not to encumber or alienate our shareholding in the joint ventures for specified periods. In certain joint ventures our shareholding has been locked in for a period of five years and we have agreed that we will not transfer our shareholding to any third party nor will we have the right to increase/decrease our shareholding in the open market without the prior written consent of our joint venture partners. Therefore, if we determine that we have sought to pursue participation in a particular project with the wrong partners, we may be unable to change partners or continue to participate in the project as we had planned. Under the terms of certain of our joint ventures, we are required to infuse proportionate equity and our decision not to do so or inability may result in losing our affirmative rights in such joint ventures or our payment of penalties. In addition, the terms of certain of our joint ventures prevent our Company from competing with the business of the joint venture without the prior consent of the other shareholders. These covenants may limit our ability to make optimum use of our investments or exit these joint ventures at our discretion, which may have an adverse impact on our financial condition. Additionally, we cannot assure that we will be able perform or comply with our obligations under the joint venture agreements and our failure to do so may result in breach of such agreements and could adversely affect our business and results of operations.

Under the terms of our joint venture arrangement, we are obliged to make payment to Powerlinks Transmission System of the full tariff amount due, regardless of our collections from customers. Therefore, we bear the risk of non-collection from customers. In addition, under the terms of the Powerlinks Transmission System joint venture agreement, we may have to buy out the joint venture in case of a default by either party or a force majeure event, subject to CERC approval. If we were required to buy out the joint venture, our financial position may be adversely be affected.

For details see *"**History and Certain Corporate matters**"* on page 130.

In general, we face the risk in our joint ventures of losing all our equity in the event of a material breach of the joint venture entity's obligations, insolvency of the joint venture entity or similar developments.

***17. There is no assurance that our contractors will not violate any applicable laws and regulations.***

We undertake construction of our transmission and substation projects through third party contractors. Our selection criteria for contractors are primarily based on the technical experience and financial position requirements of the projects. Prior to engaging any contractor, we endeavour to ensure their capacity and capability, including their quality control systems, are adequate for contract execution. Although we have established internal control procedures in the selection of contractors, there is no assurance that our contractors will not violate any applicable laws and regulations in their provision of services. If we become aware that any of our contractors is involved in any material breach of applicable laws and regulations, we will terminate the relevant contracting agreement with such contractor immediately. In the event that we are unable to identify any substitute, our business operations or planned expansion projects may be adversely affected.

***18. We require statutory and regulatory permits and approvals to operate and expand our businesses, and the failure to obtain them in a timely manner or at all may adversely affect our operations.***

We require regulatory approvals, sanctions, licenses, registrations and permissions to operate and expand our businesses. For instance, our Company may be required to obtain approval of the Ministry of Environment and Forests of the GoI under the Forest (Conservation) Act, 1980 if a transmission project involves the diversion of forest land, and the specific clearance of the Supreme Court of India if the project involves the erection of transmission lines in areas designated as wildlife sanctuaries or national parks.

We cannot assure you that we will obtain all regulatory approvals, sanctions, licenses, registrations and permissions that we may require in the future, or receive renewals of existing or future approvals, sanctions, licenses, registrations and permissions in the time frames required for our operations or at all, which could adversely affect our business. For more information, see "***Government and Other Approvals***" on page 328.

***19. Grid disturbances or failures could adversely affect our reputation and our relations with our regulators and stakeholders.***

Grid disturbances can arise when sufficient imbalances exist between power being delivered to and power being removed from the transmission system. We employ modern operations and maintenance, load despatch and communications systems and methods to avoid such outcomes and we have not suffered a major grid disturbance**,** meaning an interruption affecting an entire region or an inter-regional transmission system, since January 2003. Nevertheless, we could be subject to grid disturbances despite our efforts to avoid them, as a result of actions taken by generators or customers, the rapid expansion of regional electricity grids and their integration into a national grid or other reasons. Long-lasting or repeated disturbances could adversely affect our reputation as a transmission service provider with customers, generators, our regulators and others. Such loss of reputation could hurt our business and make relations with our regulators difficult.

***20. Our recovery of operating and maintenance expenses under our tariffs may not compensate us for all such expenses.***

Under our tariffs, we receive reimbursements for our operating and maintenance expenses at normative rates, rather than actual rates. As a result, if our actual operating and maintenance expenses exceed the reimbursements we receive, our profit will be reduced by the shortfall amount.

***21. In the future, our quarter-to-quarter financial information may not be strictly comparable, because such financial information would vary if a new transmission project were commissioned in a particular quarter.***

We start generating income in respect of a transmission project after the completion of the project. At any point in time, we have several ongoing transmission projects with different project completion schedules. As a result, the completion of one or more projects in a particular quarter could increase our income. In such a case, our income in that quarter may not be comparable to our income in previous quarters.

***22. Some of our immovable properties may have certain irregularities in title, as a result of which our operations may be impaired.***

We possess immovable properties at various locations for the purposes of our business, held either on freehold or leasehold basis. Several of our material immovable properties for our transmission lines, infrastructure and projects, whether owned or leased by us, have certain irregularities in title including that the deeds for transfer of property are inadequately stamped or have not been executed or registered with the concerned authority, due to which we may not be able to prove tenancy or ownership rights over such property. In addition, registration of land title in India is not centralized and has not been fully computerized. Land records are often hand-written in local languages and may not be legible or correctly spelt and at times may be in poor condition or untraceable, making it difficult to ascertain title. Title risks can be particularly acute where fragmented land rights are acquired from agriculturalists and small landholders. Further, title records in India presently provide only for presumptive title rather than a guaranteed title to the land. Indian law, for example, recognizes the ability of persons to effect a valid mortgage on an unregistered basis by the physical delivery of original title documents to a lender. Adverse possession under Indian law also gives rise, on 12 years' occupation, to valid ownership rights as against all parties, including government entities that are landowners, without the requirement of registration of ownership rights by the adverse possessor. Title to land may be defective as a result of a failure on our part, or on the part of a prior transferee, to obtain the consent of all such persons or to duly complete stamping and registration requirements. The uncertainty of title to land may impede the processes of acquisition, independent verification and transfer of title, and any disputes in respect of land title that we may become party to may take several years and considerable expense to resolve if they become the subject of court proceedings.

Our business may be affected if we are unable to continue to utilize our owned and leased properties as a result of any irregularity of title or otherwise.

***23. We currently engage in foreign currency borrowing and we are likely to continue to do so in the future, which exposes us to fluctuations in foreign exchange rates and other potential costs.***

While our principal revenues are in Rupees, we borrow funds from outside India in foreign currencies. As at March 31, 2010 and September 30, 2010, we had ₹ 111,295.2 million and ₹ 117,468.7 million equivalent respectively of foreign currency borrowings outstanding. These borrowings are held in currencies such as U.S. Dollars, Euros, Swiss Francs, Swedish Kroner and Japanese Yen. These borrowings expose us to losses due to fluctuations in foreign currency exchange rates. As at September 30, 2010, the US Dollar, Swiss Francs and other currencies to Rupee exchange rates resulted in adjustments in our interest costs, leading to a charge of ₹ 25.7 million in interest and finance charges. Currently, any transmission-related financial expense that we incur as a result of foreign currency borrowing is passed on to our customers as part of our tariff arrangements. Were this to change, volatility in foreign exchange rates could adversely affect our business. In addition, in the event of disputes under any of our foreign currency borrowings, we may be required by the terms of those borrowings to defend ourselves in foreign court or arbitration proceedings, which could result in additional costs to us.

***24. A violation of health and safety requirements and the occurrence of accidents could disrupt our operations and increase operating costs.***

A violation of health and safety laws or failure to comply with the requirements of the relevant health and safety authorities could lead to, among other things, a temporary shutdown of all or a portion of our transmission and substation facilities and the imposition of costly compliance procedures. If health and safety authorities shut down all or a portion of transmission and substation facilities or impose costly compliance measures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

The nature of our operations creates a risk of accidents and fatalities among our workforce, and we may be required to pay compensation or suspend operations as a result of such accidents or fatalities, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

***25. Our results of operations could be adversely affected by strikes, work stoppages or increased wage demands by our employees or other disputes with our employees.***

As at September 30, 2010, we had 9,717 employees. Substantially all of our employees at the workman level are affiliated with labour unions.

We have had no instances of strikes or labor unrest since we commenced operations. We believe that we have harmonious relationships with our worker unions. Nevertheless, there can be no assurance that we will not experience disruptions in our operations due to disputes or other problems with our work force, which may adversely affect our business and results of operations. Efforts by labour unions to affect compensation and other terms of employment may divert management's attention and increase operating expenses which could adversely affect our business and results of operations.

***26. Litigation and other forms of opposition from local communities and other parties may adversely affect our results of operations and financial condition.***

The construction and operation of our transmission and substation projects may have significant consequences on grazing, logging, agricultural activities, mining and land development as well as on the ecosystem of the affected areas. The environmental impact of a particular transmission project typically depends on the location of the project and the surrounding ecosystem. Further, the construction and operation of our transmission and substation projects may require the displacement or relocation of local communities or may otherwise disrupt their activities and livelihoods, especially during the project construction period.

There can be no assurance that we will not be subject to litigation or other forms of opposition from public interest groups, local communities or non-governmental organizations, in relation to the environmental impact of our transmission projects or in relation to land acquisition and construction activities for our projects and the consequent displacement and rehabilitation of affected communities. Any such claims or other opposition may delay or prevent us from implementing our projects. We may be required to bear substantial compliance, rehabilitation or other significant liabilities, which may lead to significant increases to our project development costs. As a result, our results of operations, financial condition and prospects may be adversely affected.

For example, public interest litigation has been instituted by Western Ghats Environmental Forum before the High Court of Karnataka, Bangalore, seeking direction restraining the implementation of major projects which destroy flora and fauna and also restraining the stringing of transmission lines across Western Ghats in North Kanara. Similar public interest litigation has also been instituted against us by Vanasuma Foundation before High Court of Karnataka, Bangalore. In addition, there are various court proceedings pending against our Company with respect to land acquired for its various projects under the Land Acquisition Act, 1894, the majority of proceedings which relate to demands for increased compensation by landowners. For details, see "***Outstanding Litigation and Material Developments***" on page 300.

***27. New technologies could make our telecommunication business less desirable to current and potential customers and could result in decreasing revenues, which would have a material adverse effect on our business, results of operations and financial condition.***

The telecommunication industry is subject to rapid and significant changes in technology. The DWDM and SDH communications technologies we currently deploy may become obsolete or subject to competition from new technologies in the future, and the technology in which we invest in the future may not perform as we expect or may be superseded by competing technologies before our investment costs have been recouped. In addition, the cost of implementing new technologies, upgrading our networks or expanding network capacity to effectively respond to technological changes may be substantial. Our ability to meet such costs will, in turn, depend upon our ability to obtain additional financing on commercially acceptable terms. Moreover, there can be no assurance that technologies will develop according to anticipated schedules, or that they will perform according to expectations or be commercially accepted. As a result, our telecommunication business, results of operations and financial condition could be negatively affected.

***28. We have short term contracts with customers in our telecommunication business.***

The purchase orders received by us from our telecommunication customers and the capacity agreements entered into with our customers range from a period of three months to fifteen years. However, these agreements have provisions for earlier termination and as a result there is no assurance that a customer will stay with us for the entire period. The termination of contracts before the expiry period or non-renewal of our existing contracts may adversely affect our results of operations.

***29. We are entering into new businesses that may not be successful.***

We are seeking to diversify our operations and take advantage of opportunities in new areas such as telecommunication infrastructure development and leasing. We do not have operating history or significant experience in these new businesses, and they may involve risks and difficulties with which we may not be familiar. These new businesses may require capital and other resources, as well as management attention, which could place a burden on our resources and abilities. These new businesses are also subject to significant regulation, which may change. The early stage of these new businesses and any changes to the nature of the relevant regulations may make it difficult to predict their economic viability. We may not be successful in these businesses and cannot provide you with any assurances as to the timing and amount of any returns or benefits that we may receive from these new businesses or any other new businesses we may enter into. We may need to share a portion of the revenue generated from these new businesses as may be directed by concerned regulatory authorities.

***30. Decrease in demand for telecommunication tower space could affect our future operating results.***

Factors adversely affecting the demand for telecommunication tower space in India in general would be likely to adversely affect our future operating results. Such factors could include:

- a deterioration in the financial condition of wireless communications service providers generally due to declining tariffs, media convergence or other factors;
- a decrease in the ability and willingness of wireless communications service providers to maintain or increase capital expenditures;
- a decrease in the growth rate of wireless communications generally or of a particular segment of the wireless communications sector;
- a decrease in consumer demand for wireless communications services due to adverse general economic conditions or other factors;
- adverse developments with respect to governmental licensing of spectrum and changes in telecommunications regulations;
- mergers or consolidations among wireless service providers;
- increased use of network sharing, roaming or resale arrangements by wireless service providers amongst themselves;
- delays or changes in the deployment of 3G, 4G, WiMAX or other communications technologies;
- delays in regulatory changes that would permit us to use our towers as telecommunication or broadcasting towers or for other revenue-generating purposes;
- changing strategies of wireless service providers with respect to owning or sharing passive infrastructure;
- adverse developments with regard to zoning, environmental, health and other government regulations;
- technological changes generally; and
- general economic conditions.

Our business and proposed capital expenditure plans are based on the premise that the subscriber base for wireless telecommunications services in India will grow at a rapid pace and that Indian wireless service providers will, to a certain degree, adopt the passive infrastructure sharing model. If the Indian wireless telecommunications services market does not grow or grows at a slower rate than we expect, or the behaviours of market players do not meet our current expectations, the demand for our services and our growth prospects will be adversely affected, which would have a material adverse effect on our business, results of operations and financial condition. In addition, the development and commercialisation of new technologies designed to improve and enhance the range and effectiveness of cellular telecommunication networks may significantly decrease demand for additional telecommunications infrastructure.

***31. Our consultancy business could be harmed if funding for our consulting clients and their programs were to be reduced by the GoI or foreign governments or institutions.***

A significant amount of the income we have generated from our consultancy business is due to government-funded programs such as the APDRP and the RGGVY, where we are one of the agents chosen to implement some or all parts of the relevant projects. Income from our participation in the APDRP and RGGVY projects represented 5.0% and 37.8% of the income we generated from our consultancy business in Fiscal 2009. As our participation in the APDRP concluded in March 2009, income from our participation in the RGGVY in Fiscal 2010 represented 27.8% of the income we generated from our consulting business in Fiscal 2010. In the event that government funds for RGGVY were to be reduced, or if we were unable to win new assignments, our consultancy income would be adversely affected. In addition, the international consultancy projects which we secure are often related to programs funded by multilateral agencies such as the World Bank, or any foreign government. Were such sources of funds for these programs to be reduced, our consulting income relating to such programs would be adversely affected.

***32. Our success depends in large part upon our management team and skilled personnel and our ability to attract and retain such persons.***

Our future performance depends on the continued service of our management team and skilled personnel. We also face a continuous challenge to recruit and retain a sufficient number of suitably skilled personnel, particularly as we continue to grow. For example, our Chairman and Managing Director, Mr. S.K. Chaturvedi, and our Director (Finance), Mr. J. Sridharan, are both due to retire within the next 12 months, and we cannot assure you that we will be able to find suitable replacements for them in a timely manner. Generally, there is significant competition for management and other skilled personnel in India, and it may be difficult to attract and retain the personnel we need in the future. In particular, we may be unable to compete with private companies for suitably skilled personnel due to their ability to provide more competitive compensation and benefits. Although we believe we have employee-friendly policies, including an incentive scheme to encourage employee retention, the loss of key personnel may have an adverse affect on our business, results of operations, financial condition and ability to grow.

For details of the profile of our key management, see "***Our Management***" beginning on page 164.

***33. The GoI shall continue to hold a majority of our Equity Shares following the Issue, and our other shareholders will be unable to affect the outcome of shareholder voting.***

After the completion of this Issue, the GoI will own approximately 69.42% of our paid-up capital. Consequently, the GoI, acting through the MoP, will continue to hold a majority of our Equity Shares and will have the power to appoint and remove our directors and therefore influence the outcome of most proposals for corporate action requiring approval of our Board of Directors or shareholders, such as proposed annual and other plans, revenue budgets, capital expenditures, dividend policy, transactions with other GoI-controlled companies or the assertion of claims against such companies and other public sector companies. In particular, given the importance of the power industry to the economy, the GoI could require us to take actions designed to serve the public interest in India and not necessarily to maximise our profits. In addition, the GoI significantly influences our operations through its various departments and policies.

***34. Our management will have flexibility in applying the Net Proceeds for the Object of the Issue.***

We intend to use the Net Proceeds for the purposes described in "***Object of the Issue***" on page 43. Our management, in accordance with the policies set up by our Board, will have flexibility in deploying the Net Proceeds, as well as the discretion to revise its business plan from time to time, and consequently the funding requirement and deployment of funds may also change. This may include rescheduling the proposed utilization of Net Proceeds and increasing or decreasing expenditure for a particular object vis-à-vis the utilization of Net Proceeds. In the event of significant variations in the proposed utilization, approval of our shareholders will be duly sought. In case of variations in the actual utilization of funds earmarked for the purposes set forth above, increased fund requirements may be financed by the funds available for general corporate purposes, out of the Net Proceeds. If such surplus funds are unavailable, the required financing will be met through cash in hand and debt, or a combination thereof. Further, pending utilization of the Net Proceeds, we intend to invest such Net Proceeds in approved interest-bearing liquid instruments including money market mutual funds and bank deposits, as approved by our Board of Directors. In addition, any balance amount from the Net Proceeds which may be allocated to general corporate purposes will be used at the discretion of our management in accordance with policies approved by our Board of Directors from time to time.

***35. The project appraisal reports prepared in relation to our Identified Projects identify possible risk factors that could adversely affect our Company and its business, prospects, financial condition and results of operations.***

Out of the 13 Identified Projects, six projects are being partially funded by the World Bank. Prior to sanctioning funds for our projects, the World Bank typically undertakes an appraisal exercise of the sector and a basket of projects of our Company, which includes the six Identified Projects, namely, the Transmission System for Barh Generation Project, the Western Region Strengthening Scheme – II, the Strengthening of East-West Transmission Corridor, the Transmission System associated with Mundra Ultra Mega Power Project, the Transmission System associated with Sasan Ultra Mega Power Project and the System Strengthening in Northern Region for Sasan and Mundra Ultra Mega Power Projects. Additionally, the Western Region Strengthening Scheme – II and the System Strengthening in Northern Region for Sasan and Mundra Ultra Mega Power Projects have also been appraised by IFCI Limited and CRISIL Risk and Infrastructure Solutions Limited, respectively, which are independent appraising entities. The project appraisal reports prepared by the World Bank, IFCI Limited and CRISIL Risk and Infrastructure Solutions Limited in relation to our Identified Projects and among other things, identify possible risks factors that could adversely affect our transmission projects. The possible risk factors identified by the appraisal reports that may affect us include risks relating to project funding and cost overruns, construction of the transmission lines, force majeure events, foreign exchange exposure, interest rate exposure, regulatory risks and environmental risks. For details of these projects, see *"**Objects of the Issue**"* on page 43.

***36. One of our Subsidiaries is involved in certain legal and regulatory proceedings that, if determined against our Subsidiary, may have adverse impact on our Company.***

There are certain outstanding legal proceedings pending against one of our Subsidiaries, Power System Operation Corporation Limited, pending at various levels of adjudication before various courts, tribunals, authorities and appellate bodies in India. Should any new developments arise, such as a change in the Indian law or rulings against them by appellate courts or tribunals, we may need to make provisions in our financial statements, which may increase our expenses and current liabilities. We can give no assurance that these legal proceedings will be decided in its favour. Any adverse decision may have a significant effect on our business, financial condition and results of operations. Details of the proceedings that have been initiated against Power System Operation Corporation Limited are set forth below:

*(in ₹ million)*

| Nature of Proceedings | Number of Proceedings | Amount Involved |
|---|---|---|
| CERC and Tariff Related Disputes | 14 | - |
| Civil suits | 1 | - |
| **Total** | **15** | **-** |

For details of these cases, see *"**Outstanding Litigation and Material Developments**"* on page 300.

***37. Some of our joint venture companies are involved in certain legal, regulatory and arbitral proceedings that, if determined against them may have an adverse impact on our Company.***

There are certain outstanding legal proceedings pending against some of our joint venture companies, namely, Torrent Powergrid Limited, Powerlinks Transmission Limited and Jaypee Powergrid Limited, which are pending at various levels of adjudication before various courts, tribunals, authorities and appellate bodies in India. Should any new developments arise, such as a change in the Indian law or rulings against them by appellate courts or tribunals, we may need to make provisions in our financial statements, which may increase our expenses and current liabilities. We can give no assurance that these legal proceedings will be decided in their favour. Any adverse decision may have a significant effect on our business, financial condition and results of operations. Details of the proceedings that have been initiated against these joint venture companies are set forth below:

*(in ₹ million)*

| Name of Proceedings | Number of Proceedings | Amount Involved |
|---|---|---|
| Civil suits | 13 | 8.2 |
| **Total** | **13** | **8.2** |

For details of these cases, see *"**Outstanding Litigation and Material Developments**"* on page 300.

***38. We are subject to inspections, which may result in investigations, proceedings and penalties.***

We are periodically subject to inspections of our work sites and certain office locations, including our finance department, by the relevant authorities, including the vigilance wing of the GoI. Certain of these inspections have resulted in investigations and cases commenced against us or our employees. Going forward we will remain subject to similar inspections, investigations and cases. If one or more of such inspections, investigations or cases leads to a significant award or penalty against us, our business may be adversely affected.

***39. As at September 30, 2010, we had contingent liabilities of ₹ 43,953.7 million which have not been provided for in our financial statements and could adversely affect our financial condition.***

As at September 30, 2010, we had contingent liabilities not provided for, as disclosed in the notes to our unconsolidated, unaudited, limited review financial statements for the six months ended September 30, 2010:

*(₹ in million)*

| Contingent Liabilities | As at September 30, 2010 |
|---|---|
| Claims against the Company not acknowledged as debt in respect of: | |
| Arbitration / Court Cases | 20,272.3 |
| Land / Crop/Tree Compensation cases | 11,032.4 |
| Service Tax | 0.0 |
| Others | 1,668.8 |
| Disputed Tax Demands-Income Tax | 719.4 |
| Disputed Tax Demands-Service Tax | 0.0 |
| Disputed Tax Demands-Others | 201.2 |
| Continuity Bonds with Custom Authorities | 9,830.9 |
| Other Service Tax | 0.0 |
| Others | 228.7 |
| **Total** | **43,953.7** |

If these contingent liabilities materialize, fully or partly, our financial condition could be materially and adversely affected.

***40. The proposed adoption of IFRS, which we expect to have to adopt effective April 1, 2011, could have a material adverse effect on the price of the Equity Shares.***

Public companies in India, including our Company, may be required to prepare annual and interim financial statements under IFRS in accordance with the roadmap for the adoption of, and convergence with, IFRS announced by the Ministry of Corporate Affairs, Government of India, through the press note dated January 22, 2010 (the "**MCA Press Release**") and the clarification thereto dated May 4, 2010 (together with the MCA Press Release, the "**IFRS Convergence Note**"). Pursuant to the IFRS Convergence Note, we will be required to prepare our annual and interim financial statements under converged accounting standards in a phased manner beginning with the fiscal period commencing April 1, 2011. Our financial condition, results of operations, cash flows or changes in shareholders' equity may appear materially different under IFRS than under Indian GAAP. This may have a material adverse effect on the amount of income recognized during that period and in the corresponding period in the comparative fiscal year/period.

In addition, in our transition to IFRS reporting, we may encounter difficulties in the ongoing process of implementing and enhancing our management information systems. Moreover, our transition may be hampered by increasing competition and increased costs for the relatively small number of IFRS-experienced accounting personnel available as more Indian companies begin to prepare IFRS financial statements.

***41. We do not have intellectual property rights over our corporate logo.***

We have applied for registration of our corporate logo, which are currently pending before the Registrar of Trademarks, New Delhi. Currently we do not have a registered trademark over our corporate logo and therefore we do not enjoy the statutory protections accorded to a registered trademark. There can be no assurance that we will be able to register the trademark and the logo or that third parties will not infringe on our intellectual property, causing damage to our business prospects, reputation and goodwill.

**EXTERNAL RISKS**

***42. We may face increased competition for our transmission business and we face significant competition for our consulting business and telecommunication business from Indian and international companies.***

We may face increased competition for our transmission business. As a consequence of reforms stipulated in the Electricity Act, 2003 and other rules and regulations notified by the CERC and CEA, large Indian business houses and international companies, among others, including some that already have a presence in the Indian power sector, may seek to expand their operations in the Indian transmission sector. Our competitors in the power business include Reliance Power Transmission, Energy Infratech and Kalpataru Power Transmission. The power sector in India could also attract new domestic and international entrants. Significant competition from within or outside India could adversely affect our growth plans and might affect our future results of operations.

Our consultancy business is subject to competition from various competitors in India and abroad. We are generally awarded our domestic consultancy projects without a competitive bidding process. Our primary domestic competitors for awards include KEC International Limited, Larsen & Toubro, Kalpataru Power Transmission Limited, Gammon India Limited, ABB India, Areva T&D and Siemens. Most of our international projects are awarded on a competitive bidding process. Our primary international competitors include Lahmeyer International, Fichtner, KEMA Inc., Energy Services Limited and SMEC International Pty Limited.

In our telecommunication business, we are subject to broad and intense competition for the provision of telecommunication bandwidth services, particularly from telecommunication companies with geographically extensive networks. Competition is expected to intensify in the telecommunications services industry in India and there may also be increasing competition from global players. Our competitors in the telecommunications business include all major national long distance operators. We have executed agreements to provide telecommunication bandwidth to certain customers, and most of our customers are also our competitors. These competitors provide similar bandwidth services to other telecommunication operators.

Many of our competitors in the consulting business and telecommunications business are larger than us and have greater financial resources. They may also benefit from greater economies of scale and operating efficiencies. As a result, our competitors may be able to present lower bids for contracts than we do, causing us to win fewer tenders. We cannot assure you that we can continue to compete effectively in the future.

***43. We operate in a highly regulated environment, and the government policies, laws and regulations affecting the sectors in which we operate and the related industries could adversely affect our operations and our profitability.***

Our businesses are regulated by the Central Government and State Governments in India, as well as by the governments of the countries in which we operate. See "***Regulations and Policies in India***" on page 118 for a description of laws and regulations applicable to us in India. The regulatory framework in India is evolving and regulatory changes could have an adverse effect on our business, results of operations and financial condition. Non-compliance with any regulation may also lead to penalties, revocation of our permits or licenses or litigation.

Future government policies and changes in laws and regulations in India and elsewhere may adversely affect our business and operations, and restrict our ability to do business in our existing and target markets. The timing and content of any new law or regulation is not in our control and such new law or regulation could have an adverse effect on our business, results of operations and financial condition.

***44. Compliance with, and changes in, environmental, health and safety laws and regulations may adversely affect our financial condition and results of operations.***

We are subject to environmental, health and safety regulations. For further details, see "***Regulations and Policies in India***" beginning on page 118. Governments may take steps towards the adoption of more stringent environmental, health and safety regulations, and we cannot assure you that we will be at all times in full compliance with these regulatory requirements. For example, these regulations often require us to purchase and install expensive pollution control equipment or make changes to our existing operations to limit any adverse impact or potential adverse impact on the environment or the health and safety of our employees, and any violation of these regulations, whether or not accidental, may result in substantial penalties, revocations of operating permits or a shutdown of our facilities. Due to the possibility of unanticipated regulatory developments, the amount and timing of future expenditures to comply with regulatory requirements may vary substantially from those currently anticipated. If there is any unanticipated change in the environmental, health and safety regulations to which we are subject, we may need to incur substantial capital expenditures to comply with such new regulations. Our costs of complying with current and future environmental, health and safety laws and our liabilities arising from failure to comply with applicable regulatory requirements may adversely affect our business, financial condition and results of operations.

***45. A slowdown in economic growth in India could cause our business to suffer.***

Our transmission and telecom segments, which account for 96.3% of our revenue from operations for the six month period ended September 30, 2010, have their operations entirely in India and, consequently, our performance and growth is dependent on the state of the overall Indian economy. The Indian economy has shown variable growth over the last several years, with real GDP growing at 7.4% in the year ended March 31, 2010, 6.7% in the year ended March 31, 2009, and 9.3% in the year ended March 31, 2008. Growth in industrial production in India has been variable as well. Any slowdown in the Indian economy could adversely affect our business and the businesses of our customers. The Indian economy, following a period of significant growth, has more recently been adversely affected by challenging global market and economic conditions that has caused and may continue to cause a downturn in the economic growth rate in India. The current economic slowdown has had, and could continue to have, and any future slowdown in the Indian economy could have a material adverse effect on the capital expenditure budgets of our customers and, as a result, on our financial condition and results of operations.

***46. Significant shortages in the supply of crude oil, natural gas or coal could adversely affect the Indian economy and the power sector projects to which we have exposure, which could adversely affect us.***

India imports approximately 70% of its requirements of crude oil. Crude oil prices are volatile and are subject to a number of factors such as the level of global production and political factors such as war and other conflicts, particularly in the Middle East, where a substantial proportion of the world's oil and natural gas reserves are located. Any significant increase in oil prices could affect the Indian economy, including by adding to inflationary pressures. Additionally, increases in oil prices may have a significant impact on the cost of generating power in India. As a result, there could be indirect adverse effects on our business, our ability to implement our strategy and the price of our Equity Shares.

Natural gas is a significant input for power generation projects. Natural gas prices have been volatile in recent periods. India has experienced interruptions in the availability of natural gas, which has caused difficulties for power generation projects. Continued difficulties in obtaining reliable, timely supplies of natural gas could result in indirect adverse effects on our business, our ability to implement our strategy and the price of our Equity Shares.

The Indian power generation sector has been suffering generation losses due to shortages of coal. Continued difficulties in obtaining reliable, timely supplies of coal could result in indirect adverse effects on our business, our ability to implement our strategy and the price of our Equity Shares.

***47. Political instability or changes in the GoI could adversely affect economic conditions in India and consequently our business.***

Our performance and the market price of the Equity Shares may be affected by interest rates, government policies, taxation, social and ethnic instability and other political and economic developments affecting India.

The GoI has traditionally exercised, and continues to exercise, a significant influence over many aspects of the economy. Since 1991, successive governments have pursued policies of economic liberalization and financial sector reforms. The GoI has announced that its general intention is to continue India's current economic and financial sector liberalisation and deregulation policies. However, there can be no assurance that such policies will be continued, and a significant change in the Government's policies could affect business and economic conditions in India, and could also adversely affect our financial condition and results of operations.

Political instability or changes in the Government could delay further liberalization of the Indian economy and adversely affect economic conditions in India generally, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

***48. Adverse working conditions could affect our business and results of operations.***

We have business activities that could be adversely affected by severe weather or other adverse working conditions. Incidences of severe weather conditions or other adverse working conditions such as earthquakes may require us to evacuate personnel or curtail services, damage our equipment or our facilities, requiring us to suspend our operations, preventing us from maintaining our contract schedules or generally reducing our productivity and profitability. Our operations are also adversely affected by difficult working conditions, including extremely high temperatures during summer months and heavy rain during monsoons, which could restrict our ability to carry on construction activities and fully utilize our resources.

***49. Terrorist attacks, civil unrest and other acts of violence or war involving India and other countries could adversely affect the financial markets and our business.***

Terrorist attacks and other acts of violence or war may negatively affect the Indian markets on which our Equity Shares trade and also adversely affect the worldwide financial markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately adversely affect our business. In addition, any deterioration in relations between India and its neighbouring countries might result in investor concern about stability in the region, which could adversely affect the price of our Equity Shares.

India has also witnessed civil disturbances in recent years and it is possible that future civil unrest as well as other adverse social, economic and political events in India could have a negative impact on us. Such incidents could also create a greater perception that investment in Indian companies involves a higher degree of risk and could have an adverse impact on our business and the price of our Equity Shares.

***50. Any downgrading of India's debt rating by an international rating agency could have a negative impact on our business.***

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may adversely impact our ability to obtain financing, and the interest rates and other commercial terms at which such financing is available. Such revisions could have an adverse effect on our business and financial condition, our ability to obtain financing for working capital and capital expenditures and the price of our Equity Shares.

***51. A decline in India's foreign exchange reserves may affect liquidity and interest rates in the Indian economy, which could adversely affect us.***

According to the Half Yearly Report on Management of Foreign Exchange Reserves released by the RBI on August 4, 2010, India's foreign exchange reserves increased to US$ 309.7 billion by March 31, 2008, decreased to US$ 252 billion by March 31, 2009, and increased to US$ 279.1 billion by March 31, 2010. A decline in these reserves could result in reduced liquidity and higher interest rates in the Indian economy, which in turn could adversely affect our business and future financial performance and the market price of our Equity Shares.

***52. Our ability to freely raise foreign currency denominated debt outside India may be constrained by Indian law.***

We are required to obtain regulatory approvals for foreign direct equity investment and to raise foreign currency denominated indebtedness outside India. The need to obtain such regulatory approval for future indebtedness, if any, could limit our ability to raise funds necessary for us to grow our business, including to modernise our facilities and make strategic acquisitions. No assurance can be given that any required approvals will be obtained in a timely manner, or at all. Further, foreign direct equity investment is permitted only up to 26% of our Equity Shares.

***53. Our operations in foreign countries are subject to political, economic, regulatory and other risks of doing business in those countries.***

We have international operations, including operations in Africa, the Middle East, and South Asia that we either conduct directly or through project-specific consortiums with foreign partners. We may, at any one time, have a substantial portion of our resources dedicated to projects located in a few countries or a specific geographical region, which expose us to risks in those jurisdictions. We are currently involved in 12 international consultancy projects in countries as diverse as Afghanistan, Bangladesh, Nigeria, Bhutan, United Arab Emirates, Sri Lanka and Nepal. We have submitted expressions of interest and prequalification documents to clients in countries including Kenya, Ethiopia, Uganda, Rwanda, Benin, Ghana, Togo, Botswana, Oman, Qatar, Jordan, Yemen, Kazakhstan, Tajikistan, Uzbekistan, Armenia, Georgia, Ukraine, Kuwait, Nepal, Sri Lanka, Bhutan, Laos and Bangladesh to participate in international competitive bidding for feasibility studies, engineering consultancy, capacity-building and EPC projects.

As many of our clients are governmental entities, we are subject to additional risks, such as risks associated with uncertain political and economic environments and political instability, as well as legal systems, laws and regulations that are different from the legal systems, laws and regulations that we are familiar with in India, and which may be less established or predictable than those in more developed countries. In addition, we could be subject to expropriation or deprivation of assets or contract rights, interruptions from war or civil strife, foreign currency restrictions, exchange rate fluctuations and unanticipated taxes or encounter potential incompatibility with foreign joint venture partners or consortium members.

Regulatory changes in the foreign countries in which we operate may require us to, among other things, obtain licenses or permits in order to bid on contracts or conduct our operations or enter into a consortium arrangement, joint venture, agency or similar business arrangements with local businesses in order to conduct business in those countries. These laws and regulations may also encourage or mandate the hiring of local contractors and require foreign contractors to employ citizens of, or purchase supplies from within, the relevant country. In addition, we may become involved in proceedings with regulatory authorities that may require us to pay fines, comply with more rigorous standards or other requirements or incur capital and operating expenses for compliance with such laws and regulations.

Some of our full time and casual employees are located in other countries. In order to manage our day-to-day operations, we must overcome cultural and language barriers and assimilate different business practices. In addition, we are required to create compensation programs, employment policies, codes of conduct and other administrative programs that comply with the laws and customs of different jurisdictions. Our failure to successfully manage our geographically diverse operations could impair our ability to react quickly to changing business and market conditions and comply with industry standards and procedures.

***54. Third party statistical and financial data in this Red Herring Prospectus may be incomplete or unreliable.***

We have not independently verified data from industry publications and other sources and therefore cannot assure you that they are complete or reliable. Discussions of matters relating to India, its economy or the industries in which we operate in this Red Herring Prospectus are subject to the caveat that the statistical and other data upon which such discussions are based may be incomplete or unreliable.

55. ***There may be significant independent press coverage about our Company and this Issue, and we strongly caution you not to place reliance on any information contained in press articles, including, in particular, any financial projections, valuations or other forward-looking information, and any statements that are inconsistent with the information contained in this Red Herring Prospectus.***

There has been significant press coverage about our Company and this Issue, that may include financial projections, valuations and other forward-looking information, as well as statements that are inconsistent or conflict with the information contained in this Red Herring Prospectus. We do not accept any responsibility for the accuracy or completeness of such press articles, and we make no representation or warranty as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations, forward-looking information, or of any assumptions underlying such projections, valuations, forward-looking information or any statements are inconsistent or conflict with the information contained in this Red Herring Prospectus, included in or referred to by the media.

56. ***Natural calamities could have a negative effect on the Indian economy and adversely affect our business and the price of our Equity Shares.***

India has experienced natural calamities such as earthquakes, a tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determines their effect on the Indian economy. For example, as a result of drought conditions in the country during fiscal 2009, the agricultural sector recorded negligible growth for that period. Further prolonged spells of below normal rainfall or other natural calamities could have a negative effect on the Indian economy, adversely affecting our business and the price of our Equity Shares.

57. ***An outbreak of an infectious disease or any other serious public health concerns in Asia or elsewhere could adversely affect our business.***

The outbreak of an infectious disease or any other serious public health concern in Asia or elsewhere could have a negative impact on the global economy, financial markets and business activities worldwide, which could adversely affect our business. The outbreak of Severe Acute Respiratory Syndrome in Asia, swine influenza, avian influenza across Asia and Europe and H1 N1 around the world have adversely affected a number of countries. Although we have not been adversely affected by such outbreaks in the past, we can give you no assurance that a future outbreak of an infectious disease or any other serious public health concern will not have a material adverse effect on our business.

58. ***Our business and activities will be regulated by the Competition Act, 2002 (the "Competition Act") and any application of the Competition Act to us could have a material adverse effect on our business, financial condition and results of operations.***

The Competition Act is designed to prevent business practices that have an appreciable adverse effect on competition in India. Under the Competition Act, any arrangement, understanding or action in concert between enterprises, whether formal or informal, which causes or is likely to cause an appreciable adverse effect on competition in India is void and attracts substantial monetary penalties. Any agreement which directly or indirectly determines purchase or sale prices, limits or controls production, shares the market by way of geographical area, market or number of customers in the market is presumed to have an appreciable adverse effect on competition. Further, if it is proved that the contravention committed by a company took place with the consent or connivance or is attributable to any neglect on the part of, any director, manager, secretary or other officer of such company, that person shall be guilty of the contravention and liable to be punished. For more information, see "***Regulations and Policies in India***" on page 118.

The effect of the Competition Act on the business environment in India is as yet unclear. If we are affected, directly or indirectly, by any provision of the Competition Act, or its application or interpretation, including any enforcement proceedings initiated by the Competition Commission of India and any adverse publicity that may be generated due to scrutiny or prosecution by the Competition Commission, it may have a material adverse effect on our business, financial condition and results of operations.

**RISKS RELATED TO EQUITY SHARES**

***59. Conditions in and volatility of the Indian securities market may affect the price or liquidity of our Equity Shares.***

The Indian securities markets are smaller than securities markets in more developed economies. Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities. Further, the Indian stock exchanges have often experienced periods of significant volatility, with the BSE index declining by 10.16% to 9,826.91 points (the intra-day low on May 22, 2006). The BSE index also fell by 453.36 points or 3.49% to 12,529.62 points on March 14, 2007. Moreover, the BSE index fell from a close of 20,873.33 points on January 8, 2008 to a close of 8,509.56 points on October 27, 2008, a fall of approximately 59.23%. Trading was also halted on the NSE and BSE on May 18, 2009 as the BSE Sensex rose by 17.34% after the announcement of India's parliamentary results. The Indian stock exchanges have also experienced problems that have affected the market price and liquidity of securities, such as temporary exchange closures, broker defaults, settlement delays and strikes by brokers. In addition, the governing bodies of the Indian stock exchanges have from time to time restricted securities from trading, limited price movements and restricted margin requirements. If similar problems occur in the future, the market price and liquidity of our Equity Shares could be adversely affected.

***60. There are restrictions on daily movements in the price of the Equity Shares, which may adversely affect a shareholder's ability to sell, or the price at which it can sell, Equity Shares at a particular point in time.***

Following the Issue, we may be subject to a daily "circuit breaker" imposed by all stock exchanges in India, which does not allow transactions beyond the specified increases or decreases in the price of the Equity Shares. This circuit breaker operates independently of the index-based, market-wide circuit breakers generally imposed by SEBI on Indian stock exchanges. The percentage limit on our circuit breakers will be set by the stock exchanges based on the historical volatility in the price and trading volume of the Equity Shares.

The Stock Exchanges will not inform us of the percentage limit of the circuit breaker in effect from time to time and may change it without our knowledge. This circuit breaker will limit the upward and downward movements in the price of the Equity Shares. As a result of this circuit breaker, no assurance can be given regarding your ability to sell your Equity Shares or the price at which you may be able to sell your Equity Shares at any particular time.

***61. Substantial future sales or issuances of our Equity Shares in the public market may dilute the position of investors and could adversely affect the market price of our Equity Shares.***

Any future issuance of Equity Shares by us or sale of our Equity Shares by the GoI or by other significant shareholders, or any future issuance of convertible securities by us, or the perception in the market that such sale or issuance may occur, may significantly affect the trading price of our Equity

Shares. Such issuances of Equity Shares and convertible securities, or the perception in the market of that such issuance may occur, may dilute the positions of investors in the Equity Shares and could adversely affect the market price of our Equity Shares.

***62. After this Issue, the price of our Equity Shares may be volatile, or an active trading market for our Equity Shares may not be sustained.***

The prices of our Equity Shares may fluctuate after this Issue due to a wide variety of factors, including:

- volatility in the Indian and global securities markets;
- our operational performance, financial results and grid expansion;
- developments in India's economic liberalization and deregulation policies, particularly in the power sector; and
- changes in India's laws and regulations impacting our business.

We cannot assure you that an active trading market for our Equity Shares will be sustained after this Issue or that the price at which our Equity Shares are offered will correspond to the prices at which they will trade in the market subsequent to this Issue.

***63. There is no guarantee that the Equity Shares offered and sold in this Issue will be listed on the Stock Exchanges in a timely manner or at all.***

In accordance with Indian law and practice, permission to list the Equity Shares will not be granted until after those Equity Shares have been issued and allotted. Approval will require all other relevant documents authorizing the issuing of Equity Shares to be submitted. There could be a failure or delay in listing the Equity Shares on the Stock Exchanges. Any failure or delay in obtaining the approval would restrict your ability to dispose of your Equity Shares.

In addition, pursuant to India regulations, certain actions are required to be completed before the Equity Shares can be listed and trading may commence. Investors' book entry or dematerialized electronic accounts with depository participants in India are expected to be credited only after the date on which the issue and allotment is approved by our Board of Directors. There can be no assurance that the Equity Shares allocated to Investors will be credited to their dematerialized electronic accounts, or that trading will commence on time after Allotment has been approved by our Board of Directors, or at all.

***64. Our ability to pay dividends in the future will depend upon various factors including future earnings, financial condition, cash flows, working capital requirements and capital expenditures.***

The amount of our future dividend payments, if any, will depend upon various factors including our future earnings, financial condition, cash flows, working capital requirements and capital expenditures. There can be no assurance that we will be able to declare dividends. For more information, see "***Dividend Policy***" on page 183.

**Prominent Notes:**

- Further Public Issue of 841,768,246 Equity Shares of ₹ 10 each for cash at a price of ₹ [•] per Equity Share of the Company aggregating ₹ [•] million. The Issue comprises a Fresh Issue of 420,884,123 Equity Shares by the Company and an Offer for Sale of 420,884,123 Equity Shares by the President of India acting through the MoP. The Issue comprises a Net Issue to the public of 838,378,646 Equity Shares and an Employee Reservation of up to 3,389,600 Equity Shares for subscription by Eligible Employees.

- The average cost of acquisition of our Equity Shares by our Promoter is ₹ 10 which has been calculated on the basis of the average of amounts paid by it to acquire the Equity Shares currently held by it.

- Except as disclosed in the section titled "***Financial Statements – Annexure XXIII - Related Party Transactions***" on page 241, there have been no transactions between our Company and our Subsidiaries/joint ventures during the last Fiscal including the nature and cumulative value of the transactions.

- The net worth of our Company as on March 31, 2010, as per our audited financial statements, and as on September 30, 2010, as per our unconsolidated, unaudited, limited review financial statements for the six month ended September 30, 2010, included in this Red Herring Prospectus was ₹ 159,135.1 million and ₹ 172,410.1 million, respectively.

- The net asset value per Equity Share as on March 31, 2010, as per our audited financial statements, and as on September 30, 2010, as per our unconsolidated, unaudited, limited review financial statements for the six month ended September 30, 2010, included in this Red Herring Prospectus was ₹ 37.81 and ₹ 40.96, respectively.

- There has been no financing arrangement by which the Directors of our Company and their relatives have financed the purchase by any other person of securities of our Company other than in the normal course of business of the financing entity during the period of six months immediately preceding the date of filing of this Red Herring Prospectus with the RoC.

- The investors may contact any of the BRLMs who have submitted the due diligence certificate to SEBI, for any complaint pertaining to the Issue.

## SECTION III – INTRODUCTION

## SUMMARY OF INDUSTRY

*The information in this section has been obtained or derived from publicly available documents prepared by various sources, including officially prepared materials from the Government of India and its various ministries and from various multilateral institutions. This information has not been prepared or independently verified by us or any of our advisors including the BRLMS, and should not be relied on as if it had been so prepared or verified. Unless otherwise indicated, the data presented exclude captive generation capacity and generation.*

### OVERVIEW OF THE INDIAN ECONOMY

India, the world's largest democracy with an estimated population of 1.157 billion, had a GDP on a purchasing power parity basis of an estimated US$3.57 trillion in 2009, according to the CIA Factbook. This made the Indian economy the fifth largest in the world after the European Union, United States, China and Japan.

According to the CIA Factbook, India's economy was the second fastest growing major economy in the world after China in CY2009. According to the RBI's Macroeconomic and Monetary Developments First Quarter Review 2010-11 dated July 26, 2010, the Indian economy exhibited robust acceleration in the pace of recovery in the fourth quarter of FY2010 led by strong growth in industrial activities. At 8.6%, GDP growth in the fourth quarter of FY2010 showed a significant recovery in relation to the 5.8% growth recorded during the second half of FY2009. The RBI expects overall GDP growth in FY2011 to accelerate further.

The Indian economy has weathered the global downturn relatively well. The OECD, in its Economic Outlook No. 87 released in May 2010, projects that India's real GDP will grow at a rate of 8.3% in CY2010 and 8.5% in CY2011 due to recent high frequency indicators of activity and business sentiment and an expected rebound in agricultural activity following the deficient monsoonal rainfall in CY2009.

Although the Indian economy has improved markedly since the implementation of economic reforms in 1991, India continues to underperform in the development of its infrastructure. According to the GoI's Projections of Investment in Infrastructure during the Eleventh Five Year Plan released in October 2007 lack of infrastructure is one of the major constraints on India's ability to achieve 9.0% to 10.0% growth in GDP.

The power sector has been recognized by the GoI as a key infrastructure sector to sustain the growth of the Indian economy. As per the Projections of Investment in Infrastructure during the Eleventh Plan released in August, 2008, investment in the electricity sector is projected at ₹ 6,665 billion (approximately US$166.63 billion) at FY2007 prices, or approximately 32.42% of the total projected investment in infrastructure during the Eleventh Plan.

### OVERVIEW OF THE INDIAN POWER SECTOR

India is both a major energy producer and consumer. According to the CIA Factbook, India ranked as the world's fifth largest energy producing nation in 2009 behind the United States, China, Russia and Japan with estimated total production of 723.8 billion kWh. It is also the world's fifth largest energy consuming nation, with estimated total consumption of 568 billion kWh in 2007.

Demand for electric power transmission services is largely dependent on levels of demand for electric power, and on the ability of the electric power generation and distribution sectors to service that demand. The GoI has developed a national electricity policy, which aims at accelerating the development of the power sector through the generation of additional power, in order to provide for establishment of infrastructure to increase the amount of power generated. This policy is being promoted by the Ministry of Power as “Mission 2012: Power for All”.

## SUMMARY OF BUSINESS

### OVERVIEW

We are India's principal electric power transmission company. We own and operate more than 95% of India's interstate and inter-regional electric power transmission system ("**ISTS**"). In that capacity, as at September 30, 2010, we owned and operated 79,556 circuit kilometers of electrical transmission lines and 132 electrical substations. In Fiscal 2010, we transmitted approximately 363.72 billion units of electricity, representing approximately 47% of all the power generated in India. In the six months ended September 30, 2010, we transmitted approximately 202.59 billion units of electricity, representing approximately 51% of all the power generated in India. We were ranked as the world's third largest transmission utility by the World Bank in January 2009.

We have been entrusted by the GoI with the statutory role of Central Transmission Utility ("**CTU**"). As CTU, we operate and are responsible for the planning and development of the country's nationwide power transmission network, including interstate networks. We are also required to facilitate non-discriminatory open access to available capacity in the ISTS.

We were designated a Mini-Ratna Category-I public sector undertaking in October 1998 and we were conferred the status of "Navratna" by the GoI in May 2008, which provides us greater autonomy to undertake new projects without GoI approval and allows us to make investments in subsidiaries and joint ventures, subject to an investment ceiling set by the GoI. We have received the highest annual performance rating of "Excellent" from the GoI in each year since Fiscal 1994.

We commenced our operations in Fiscal 1992 as part of an initiative of the GoI to consolidate all the interstate and inter-regional electric power transmission assets of the country in a single entity. Accordingly, the transmission assets, including transmission lines and substations, of all central sector electricity generation utilities that operated on an interstate or inter-regional basis were transferred to us from Fiscal 1992 to Fiscal 1994. For more details of our history, see "***History and Certain Corporate Matters***" on page 130.

From April 1, 2007 to September 30, 2010 we completed 32 transmission projects valued in the aggregate at approximately ₹ 138.6 billion. As at September 30, 2010, we had 68 transmission projects in various stages of implementation. As at September 30, 2010, we have spent ₹ 291.2 billion towards investment in transmission projects during the GoI's Eleventh Five Year Plan, which began on April 1, 2007 and ends on March 31, 2012. The mid-term goal of the Eleventh Five Year Plan is to achieve a national power grid with inter-regional power transfer capacity of 27,950 MW, which would include our transmission system and that of others.

The tariffs for our transmission projects are determined by the Central Electricity Regulatory Commission ("**CERC**"), pursuant to the Electricity Act 2003 and CERC regulations. The current CERC regulations are the CERC (Terms and Conditions of Tariff) Regulations, 2009, ("**Fiscal 2010-2014 Regulations**"), which are based on a cost-plus-tariff based system and provide us a return on equity on pre-tax basis at a base rate of 15.5%, to be grossed up by the normal tax rate as applicable for the respective year.

A crucial aspect of the operation of an electric power system is management of the power flow in real time with reliability and security on a sound commercial and economic basis. Since 1994 the GoI has progressively entrusted us with the operation of the Regional Load Despatch Centres ("**RLDCs**") in each of the five regions into which India is divided for purposes of power transmission and operation. As the RLDC operator, we have modernized the regional and state load despatch centers and their communication networks. In Fiscal 2009, the National Load Despatch Centre ("**NLDC**") was established. The NLDC is responsible for monitoring the operations and grid security of the national grid and supervises the scheduling and despatch of electricity over inter-regional lines in coordination with the RLDCs. All bilateral transactions are undertaken through the RLDCs, while transactions facilitated by the power exchanges are undertaken by NLDC. Our wholly-owned subsidiary, Power System Operation Corporation Limited ("**POSOCO**"), was established in March 2009 to oversee the grid management function of the RLDCs and NLDC. POSOCO received a certificate of commencement of business in March 2010, and we are in the process of transferring the movable assets of our power system operations segment to it. During Fiscal 2010, approximately 52.37 billion units of inter-regional energy transfer were facilitated across the country as compared to approximately 46.03 billion units in Fiscal 2009. The fees generated from our RLDC and NLDC operations are determined by CERC, pursuant to the Electricity Act and CERC regulations, and is presently based on a cost-plus-tariff based system.

Leveraging on our strength as India's principal power transmission company, we have diversified into the consultancy business. Since Fiscal 1995, our consultancy division has provided transmission-related consultancy services to over 115 clients in over 330 domestic and international projects. As at September 30, 2010, we were engaged in providing consultancy services to our clients in 75 domestic and international projects. In our consultancy role, we have facilitated the implementation of GoI-funded projects for the distribution of electricity to end-users through the RGGVY in rural areas and, until March 2009, the Accelerated Power Development and Reform Programme ("**APDRP**") in urban and semi-urban areas.

We have also diversified into the telecommunications business since 2001, utilizing our nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire on power transmission lines. As at September 30, 2010, the network consisted of 20,733 kilometers and connected 129 Indian cities, including all major metropolitan areas. We believe we are one of the few providers of telecommunications infrastructure with a significant presence in remote and rural areas. The availability of our telecom backbone network has been consistently maintained at 99.9% during Fiscal 2010. We have been leasing bandwidth on this network to more than 70 customers, including Bharti Airtel, Bharat Sanchar Nigam Limited, National Informatics Centre, Dishnet Wireless Limited, and Tata Communications Limited.

We have received the following licenses to provide telecommunication infrastructure services: Infrastructure Provider Category - I to construct infrastructure assets such as dark fibre, right of way, duct space and towers, Internet Service Provider Category A licence to provide internet services and a National Long Distance license to provide end to end bandwidth services.

In Fiscal 2010 we generated a total income of ₹ 75,035.8 million and profit after tax of ₹ 20,409.4 million. In Fiscal 2010, our revenues from transmission and transmission-related activities constituted 92.3% of our total revenue from operations, with the balance coming from our consulting and telecommunication businesses and from short term open access. In the six months ended September 30, 2010, we generated a total income of ₹ 43,726.6 million and profit after tax of ₹ 13,545.8 million. Our revenues from our transmission and transmission related activities constituted 91.5% of our total revenue from operations for the six months ended September 30, 2010.

We are certified for PAS 99:2006, which integrates the requirements of ISO 9001:2008 for quality, ISO 14001:2004 for environment management and OHSAS 18001:2007 for health and safety management systems. We are also certified for Social Accountability Standard, SA 8000:2008 for all our operations.

We seek to operate our transmission system at high levels of efficiency. In Fiscal 2010, we maintained a system availability rate of 99.77%. According to Booz & Company's comparative benchmarking across global transmission companies, our Company was rated as one of the best in terms of system availability in Fiscal 2010. In the six months ended September 30, 2010, our system availability rate was 99.86%. We have had no major grid disturbances, meaning an interruption affecting an entire region or an inter-regional transmission system, in the last seven years.

The following table presents certain company-wide operating parameters for the periods indicated:

| | Fiscal | | | For the six months ended September 30, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| Transmission Network (circuit kilometers) | 66,809 | 71,437 | 75,289 | 79,556 |
| Substations (number) | 111 | 120 | 124 | 132 |
| Transformation Capacity (MVA) | 73,122 | 79,522 | 83,402 | 89,170 |
| System Availability (%) | 99.65% | 99.55% | 99.77% | 99.86% |

As at September 30, 2010, we operated a network of 79,556 circuit kilometers at 765 kV, 400 kV, 220 kV and 132 kV EHV AC and +/- 500 kV HVDC. Of this 60,197 circuit kilometers are 400 kV, 2,921 circuit kilometers are 765kV, 5,947 circuit kilometers are +/-500 kV HVDC and the balance run at lower levels. We are gradually increasing our network of 765 kV transmission lines with approximately 10,000 circuit kilometers and 20 substations under development.

**OUR STRENGTHS**

We believe that the following are our principal business strengths:

***Leadership position in Indian power transmission sector***

We are India's principal electric power transmission company, owning and operating more than 95% of India's ISTS. As at September 30, 2010, we operated a network of about 79,556 circuit kilometers of interstate transmission lines, 132 EHV AC and HVDC substations with transformation capacity of about 89,170 MVA and during the six month period ended September 30, 2010 we transmitted approximately 202.59 billion units of electricity, representing approximately 51% of all the power generated in India. We were ranked as the world's third largest transmission utility by the World Bank in January 2009.

We are responsible for the expansion and technological modernization of the national electricity grid of India. Further, in our capacity as CTU, we are instrumental in implementing the regulatory framework for the power transmission industry throughout the country.

According to the 2009 Platts Top 250 Energy Company Rankings, we are number 15 on the list of fastest growing Asian energy companies.

***High operational efficiencies***

We have maintained an average availability of over 99% for our transmission system since Fiscal 2002 and we have not had a major grid disturbance, meaning an interruption affecting an entire region or an inter-regional transmission system, since January 2003. In order to ensure high rates of availability for our transmission systems, we monitor and maintain our infrastructure using modern techniques and technologies. Our levels of system availability allow us to earn additional income under certain incentive mechanisms built into our tariff structures pursuant to CERC tariff regulations. Since Fiscal 1994, we have been rated "Excellent" by the GoI on an annual basis as a result of our achievement of performance targets, which include demonstration of high operational efficiencies, set for us in memoranda of understanding that we agree to annually with the GoI.

Our operation and maintenance activities are ISO certified and our systems and procedures are updated to keep abreast with modern technology. Maintenance schedule documentation and procedures have been standardized across our assets and are available through our website portal. Periodic reviews are conducted at substations and line offices to evaluate the implementation of our systems and procedures and enhance the efficiency of our operations. Further, initiatives such as the replacement of old relays with advanced numerical or static relays, the refurbishment of existing transformers after carrying out residual age analysis have been undertaken to replace ageing transmission assets as per prevalent CERC tariff regulations. We have also introduced remote operations of existing sub-stations for optimal utilization of resources. The Ministry of Power has consistently awarded us National Awards for meritorious operational performance in the power sector since Fiscal 2005.

We have introduced state-of-the-art operation and maintenance measures such as carrying out live line maintenance using hotline maintenance equipment, including using helicopters to clean polluted insulators, and establishing Emergency Restoration Systems ("**ERS**") for the restoration of collapsed transmission lines in the minimum possible time. Further, we ensure frequent interaction between senior officials across all the regions in which we operate through multi-location video conferencing facilities.

***Effective project implementation***

We have extensive experience and expertise in implementing new transmission projects and expanding India's transmission systems. During the ninth, tenth and eleventh five year plans (through to September 30, 2010), we have added 12,436 circuit kilometers, 19,172 circuit kilometers and 20,086 circuit kilometers of transmission lines and 14, 36 and 30 sub-stations, respectively.

Our capabilities in this regard encompass many facets of transmission activities, from conceptualizing to the commissioning of projects. We contract out the construction of our transmission projects subject to our supervision and quality control.

We prioritize the efficient implementation of our transmission projects to meet stipulated time frames in order to be eligible for additional return on equity of 0.5% as per the Fiscal 2010-2014 Regulations and to derive maximum economic benefits from our commissioned projects. Our Integrated Project Management and Control System ("**IPMCS**") for the planning, monitoring and execution of projects has contributed significantly towards this goal. Under the IPMCS, various project implementation activities are broken down with identified key milestones to enable the monitoring and control of critical paths of implementation. Large transmission projects are often broken into separate elements with phasing in of commissioning that matches the priority of the requirements and allows for incremental increases to the revenue as parts of a project are commissioned. Procurement for our transmission projects is divided into well defined contracts awarded through competitive bidding. Advance action is taken for tendering, forest clearance and land acquisition, which are all critical aspects for the timely completion of a transmission project, even before investment approval is granted.

Following the award of contracts, an integrated plan governs the implementation of the transmission project, including control of the quality of materials and work during construction. We have a pool of trained and experienced personnel having expertise in all areas of project implementation, including system planning, design, engineering, contracts management, project management, supervision of construction, testing and commissioning activities.

***Attractive tariffs, competitive landscape and business model***

We are able to recover operating and maintenance charges as determined by CERC tariff regulations. Our transmission tariffs are presently determined under the Fiscal 2010-2014 Regulations on a cost-plus-tariff basis and provide us with a 15.5% return on equity until March 31, 2014. We also earn additional incentives for the timely commissioning of transmission projects and for maintaining high system availability pursuant to CERC norms. Further, as we have been designated as the CTU by the GoI, we have no direct competitors of significant size for our transmission business. In addition, many aspects of our core transmission business are characterized by a stable business model with low volatility and consistent returns. Our core business benefits from consistent and growing demand for power transmission and we provide an essential input for economic and societal growth. Because our transmission business has remained at our core since we commenced commercial operations, we have experience in managing our internal processes and systems, employees and physical assets. We rely on proven power transmission technologies but we also implement new innovations as opportunities arise.

***Diversified business portfolio***

Because of our established track record and technical expertise, since Fiscal 1995, our consultancy division has provided transmission-related consultancy services to over 115 clients in over 330 domestic and international projects. We are currently involved in 63 domestic consultancy contracts of various sizes. We have worked and we continue to work for various well-known government and private utilities such as: NTPC Limited, GMR Group Energy Sector Companies, Adani Power Limited, Jindal Power Limited, Jaiprakash Power Ventures Limited, EPTCL–Transmission Business and Lanco Power Limited**.** We are currently involved in 12 international consultancy projects in countries as diverse as Afghanistan, Bangladesh, Nigeria, Bhutan, United Arab Emirates, Sri Lanka and Nepal.

We have also leveraged our nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire on power transmission lines. As at September 30, 2010, the network consisted of 20,733 kilometers and connected 129 Indian cities, including all major metropolitan areas. We believe we are also one of the few providers of telecommunications infrastructure with a significant presence in remote and rural areas. The availability of our telecom backbone network has been consistently maintained at 99.9% during Fiscal 2010.

We have received the following licenses to provide telecommunication infrastructure services: Infrastructure Provider Category - I to construct infrastructure assets such as dark fibre, right of way, duct space and towers, Internet Service Provider Category - A licence to provide internet services and a National Long Distance license to provide end to end bandwidth services.

We generated revenues from our consultancy and telecommunications business of ₹ 4,268.9 million and ₹ 3,657.3 million in Fiscal 2010 and 2009, respectively. For the six months ended September 30, 2010, our revenues from our consultancy and telecommunications business amounted to ₹ 2,413.2 million.

***Strong financial position and cash flow from operations***

We have a strong financial position, which we believe will help us finance our expansion plans in the coming years. Our domestic bonds have been given the highest credit rating since Fiscal 2001, AAA by CRISIL, and LAAA by ICRA, and, since Fiscal 2008, CARE AAA by CARE. As at September 30, 2010, our debt-equity ratio was 2.1:1. Our high credit rating allows us to regularly access the debt markets to raise funds for capital expenditure at competitive rates. Our transmission projects have been funded primarily from cash generated from operations. Our net cash flow from operating activities was ₹ 33,780.7 million, ₹ 66,191.7 million and ₹ 65,906.4 million for the six month period ended September 30, 2010 and the Fiscal 2010 and Fiscal 2009 respectively. Our projects have also been funded in part by loans from the World Bank and the Asian Development Bank, which allow us to take loans at lower rates.

***Government support***

We believe that we derive a strategic advantage from our strong relationship with the GoI and we occupy a key position in plans for the growth and development of the Indian power sector. The President of India is the promoter of our Company and holds 86.36% of our issued and paid-up equity share capital with the power to appoint all our Directors, and in each year we enter into a memorandum of understanding with the GoI providing for our annual performance targets. The GoI's was supportive in securing the settlement of outstanding dues owed to us by the SEBs. The grant of "Navratna" status by the GoI in May 2008 provided us with strategic and operational autonomy and enhanced financial powers to take investment decisions without seeking GoI approval. The GoI's support also helps us establish international relationships through which we are able to win certain international consultancy projects.

***Skilled and experienced senior management team and competent and committed workforce***

We believe that our employees posses a level of competence and commitment that provides us with a key differentiator from our competition. Our senior executives have extensive experience in our industry and many of them have been with us for a significant portion of their careers. We believe that our senior management's expertise has played a key role in the growth of our business and in the development of consistent procedures and internal controls. In addition, the skills and diversity of our senior management team give us flexibility to respond to changes in the business environment.

We have been successful in attracting and retaining experienced staff in various areas, including operations, project management, engineering, technology, finance, human resources and law. We believe we have an employee team with a strong blend of experience and motivation. We invest significant resources in employee training and development, and we recruit through university campus selection and a competitive screening process to attract the best talent for entry-level positions.

## OUR STRATEGY

***Expand and strengthen our transmission network including the adoption of a higher voltage level system***

We intend to continue to rapidly increase our capacity to maintain and grow our leadership position and remain as the largest Indian power transmission company. The GoI's Eleventh Five Year Plan commenced on April 1, 2007. The mid-term goal of the Eleventh Five Year Plan is to achieve a national power grid with inter-regional power transfer capacity of 27,950 MW, which would include our transmission system and that of others. During the Eleventh Five Year Plan, up to March 31, 2010, we invested ₹ 254,405.2 million to further develop the national grid, including expanding inter-regional transmission systems and developing system strengthening schemes and transmission systems for the evacuation of power from central sector generation projects and UMPPs. Based on generation capacity targeted under the Eleventh Five Year Plan, we plan on capital expenditure of an aggregate amount up to ₹ 295,594.8 million for expansion in Fiscal 2011 and Fiscal 2012. From April 1, 2010 to September 30, 2010, we had invested ₹ 36,824.6 million.

As at September 30, 2010, we had 68 transmission projects in various stages of implementation. These projects involve approximately 40,000 circuit kilometers of transmission lines and 65 substations with a total power transformation capacity of approximately 106,000 MVA. We are in the process of adopting a higher voltage level system for our new projects. We are currently establishing a +/- 800 kV, 6,000 MW, HVDC, bi-pole line from the North Eastern Region to the Northern Region that we intend to transmit power over a distance of approximately 2,000 kilometers. We are facilitating the development and prototype testing of a 1,200 kV AC transmission system.

On May 31, 2010, the CERC accorded regulatory approval to us to proceed with the execution of nine high capacity transmission corridors, with HVDC links/765 kV UHVAC lines, to facilitate the evacuation of power from various generation projects being developed by independent power producers ("**IPPs**") within India. These nine corridors will help transport electricity from 48 new IPP plants, located in the coal belt, coastal areas capable of importing coal, or hydroelectric-rich areas in the Northeast region. The government-approved cost of the nine high capacity transmission corridors is ₹ 580,610 million. In addition, the Ministry of Power has directed us to construct transmission systems for the proposed 4,000 MW Chhattisgarh UMPP and 4,000 MW Orissa UMPP.

***Maintain efficient operating performance by modernising our infrastructure and services and by maintaining industry best practices.***

We intend to continue to maintain transmission availability above 99%, to optimise our operating costs and to incorporate more energy-efficient technologies. We are undertaking a range of initiatives to ensure optimal operating performance, including entering into an agreement with UMS Group Inc., an international utility management consulting firm specialising in the utilities industry, in March 2010 for the international benchmarking of our operation and maintenance practices. We intend to identify areas that require improvement and provide a plan for implementing best practices in operations, maintenance and technology.

As part of our continuing focus on efficient preventative maintenance, we have taken initiatives to undertake the aerial patrol of transmission lines by helicopter. If successful, we plan to deploy this system across our network.

We intend to modernize our infrastructure and services and to maintain industry best practices. Remote operation of substations allows for more effective utilization of our manpower and brings direct and indirect returns and benefits both from an operational and cost viewpoint. Currently, 26 of our substations are operated remotely. We are in the early stages of establishing a National Transmission Asset Management Centre and nine Regional Transmission Asset Management Centres to oversee the remote operation of most of our substations and maintenance hubs to cater to the maintenance requirements of nearby groups of substations rather than placing staff in each substation. In addition, we are in the process of developing and procuring 400 kV mobile substations to allow us to promptly restore power and repair damage to our substation facilities in the event of a natural disaster or major failure.

As part of our R&D initiatives we are undertaking a pilot project in the Northern Region involving the deployment of Phasor Measurement Units in a Wide Area Measurement System to potentially give us enhanced real-time situational awareness over our transmission systems in order to improve safety and reliability and to allow for review of significant system disturbances.

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***Continue to expand our telecommunications infrastructure operations***

We intend to expand our telecommunications infrastructure business. Our telecommunication infrastructure network benefits from the extensive geographic reach of our power transmission network. We anticipate adding to this network in accordance with market requirements. We plan to expand our telecom infrastructure network, including further diversification into value added services such as MPLS-VPN. Our Board has approved a plan to expand our network by approximately 2,000 kilometers in the current financial year.

With the focus now shifting from urban to rural connectivity, we see our role in the telecommunications arena becoming even more significant. We believe our power transmission network presence in rural and remote areas of the country can be leveraged to provide telecommunication services in such areas by co-locating wireless antennas on our tower infrastructure. As such, we are also planning to diversify into the business of leasing our tower infrastructure to independent tower firms and telecommunications service providers. We recently appointed a consultant to prepare the details of a financial feasibility study and draft agreements that will facilitate infrastructure sharing agreements and other tie ups with independent tower firms and telecommunications service providers. Based on a sample of 15,000 of our approximately 100,000 towers in operation, the report prepared by our consultant estimates that 10-15% of our towers are capable of carrying high voltage current and telecommunication signals together without interference. We have also carried out a collaborative study at Ballabgarh, Haryana for installation of antenna on our transmission towers to test suitability and found there was no interference. We are carrying out a pilot leasing project in collaboration with a service provider in the Gangtok area. The pilot leasing project has been in operation for over a year. We have floated tenders for the selection of telecom tower infrastructure providers for utilising our transmission towers in the states of Punjab, Haryana, Himachal Pradesh and Jammu and Kashmir.

***Continue to expand our consultancy business***

We intend to expand our consulting services in the domestic and international markets. We believe our Company has attractive growth opportunities as the largest power transmission company in India which we can further leverage to the benefit of our consultancy partners. We are focusing on expanding our business internationally and increasing our reach beyond the domestic market. We currently have 12 ongoing international consultancy projects and have recently been awarded projects in Sri Lanka, Afghanistan and Bangladesh. We believe that such initiatives will open new avenues for revenue and margin growth.

***Expand our corporate social responsibility initiatives***

We are committed to the cause of inclusive and sustainable socio-economic development and intend to expand our involvement in this area through our Corporate Social Responsibility ("**CSR**") policy. Effective in Fiscal 2010, we intend to invest each year in furtherance of our CSR initiatives an amount equivalent to 1% of our net profit after tax from the previous year. In line with our policy, we have taken up various activities addressing socio-economic issues of affected persons. We plan to expand our work in the areas of infrastructure, education, community health, tribal welfare, arts, culture, heritage and vocational training.

## SUMMARY FINANCIAL INFORMATION

The following tables set forth summary financial information derived from our unconsolidated audited financial statements for and as of the fiscal years ended March 31, 2009 and 2010, the unconsolidated, unaudited, limited review profit and loss statement for the six months ended September 30, 2009 and the unconsolidated, unaudited, limited review financial statements for the six months ended September 30, 2010. These financial statements have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI Regulations and are presented in "***Financial Statements***" on page 184. The summary financial information presented below should be read in conjunction with our audited financial statements, the notes thereto and "***Management's Discussion and Analysis of Financial Condition and Results of Operations***" on page 254.

**Summary of Stand Alone Profit & Loss Account**

*(Rs. In Million)*

| Particulars | Fiscal Year Ended March 31, | | Half Year Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009 (Unaudited Reviewed) | 2010 (Unaudited Reviewed) |
| **Income :** | | | | |
| Transmission Charges | 52828.4 | 65763.8 | 32026.7 | 37755.9 |
| Consultancy Revenue | 2159.0 | 2691.7 | 960.5 | 1519.5 |
| Telecom Revenue | 1498.3 | 1577.2 | 810.7 | 893.7 |
| Short Term Open Access Income | 414.2 | 1241.8 | 357.3 | 1088.4 |
| Other Income | 4487.3 | 3761.3 | 1997.1 | 2469.1 |
| **Total Income** | **61387.2** | **75035.8** | **36152.3** | **43726.6** |
| **Expenditure :** | | | | |
| Employee Remuneration and Benefits | 6438.8 | 7267.0 | 3655.3 | 3926.7 |
| Transmission, Administration and Other Expenses | 4116.1 | 5074.3 | 2007.9 | 2611.9 |
| Depreciation | 10939.7 | 19796.9 | 10488.6 | 10455.1 |
| Provisions | 462.3 | 221.5 | 21.5 | 41.5 |
| Interest and Finance Charges | 16422.7 | 15432.4 | 7688.6 | 8090.5 |
| Deferred Revenue Expenditure Written Off | 18.3 | 17.8 | 9.2 | 8.9 |
| **Total Expenditure** | **38397.9** | **47809.9** | **23871.1** | **25134.6** |
| **Profit for the year before tax and prior period adjustments** | 22989.3 | 27225.9 | 12281.2 | 18592.0 |
| Less : Prior Period Expenditure / (Income) | 703.6 | 962.7 | (6.1) | 23.0 |
| **Profit before Tax** | **22285.7** | **26263.2** | **12287.3** | **18569.0** |
| **Provision for :** | | | | |
| **Current Year Taxes** | | | | |
| Minimum Alternate Tax (MAT) | | | | |
| - Current Year | 3182.5 | 4303.4 | 1800.8 | 3538.5 |
| - Earlier Years | 1603.5 | (84.3) | 262.3 | 45.9 |
| Total | 4786.0 | 4219.1 | 2063.1 | 3584.4 |
| Fringe Benefit Tax | | | | |
| - Current Year | 146.2 | | | |
| - Earlier Years | (0.2) | (15.0) | (15.0) | |
| Total | 146.0 | (15.0) | (15.0) | 0.0 |
| Deferred Tax | 7184.9 | 2250.2 | 3900.9 | 1493.8 |
| Less : Deferred Tax recoverable | 6737.3 | 600.5 | 3727.5 | 55.0 |
| **Deferred Tax (net)** | 447.6 | 1649.7 | 173.4 | 1438.8 |
| **Profit after Tax** | 16906.1 | 20409.4 | 10065.8 | 13545.8 |

**Summary of Stand Alone Assets & Liabilities**

*(Rs. in Million)*

| Particulars | As at March 31, 2009 | As at March 31, 2010 | As at September 30, 2010 (Unaudited Reviewed) |
|---|---|---|---|
| **Fixed Assets (A) :** | | | |
| Gross Block | 403193.3 | 432022.8 | 477440.6 |
| Less : Depreciation | 91908.9 | 111410.2 | 121818.8 |
| Net Block | 311284.4 | 320612.6 | 355621.8 |
| Capital Work-in-Progress | 65334.3 | 102423.7 | 94758.1 |
| Construction Stores and Advances | 67525.7 | 101798.1 | 112997.1 |
| **Sub -total (A)** | 444144.4 | 524834.4 | 563377.0 |
| **Investments (B)** | 15928.3 | 14532.2 | 14851.2 |
| **Current Assets, Loans & Advances (C)** | | | |
| Inventories | 2975.7 | 3449.0 | 3626.1 |
| Sundry Debtors | 13735.6 | 22148.6 | 28650.2 |
| Cash and Bank Balances | 24288.8 | 32776.4 | 35611.6 |
| Other Current Assets | 13849.2 | 4875.2 | 4741.3 |
| Loans and Advances | 28279.9 | 33024.0 | 28389.1 |
| **Sub -total (C)** | 83129.2 | 96273.2 | 101018.3 |
| **Liabilities & Provisions (D)** | | | |
| Advance Against Depreciation | 21595.9 | 22136.3 | 22123.8 |
| Grants in Aid | 2253.5 | 1988.2 | 1856.9 |
| Secured Loans | 252882.5 | 313457.8 | 336568.7 |
| Unsecured Loans | 31771.8 | 30710.1 | 29671.5 |
| Deferred Tax Liability(Net) | 5385.4 | 7035.1 | 8474.0 |
| LDC Development Fund | 0.0 | 164.4 | 359.7 |
| CSR Activities Reserve | 0.0 | 83.9 | 161.1 |
| Current Liabilities | 61233.7 | 76346.0 | 78828.7 |
| Provisions | 21898.2 | 24582.9 | 28792.0 |
| **Sub-total (D)** | 397021.0 | 476504.7 | 506836.4 |
| **NET WORTH (A+B+C-D)** | **146180.9** | **159135.1** | **172410.1** |
| Represented by : | | | |
| **Share Capital (E)** | 42088.4 | 42088.4 | 42088.4 |
| **Reserves and Surplus** | **104147.5** | **117330.6** | **130871.9** |
| Less : LDC Development Fund | 0.0 | 164.4 | 359.7 |
| Less : CSR Activities Reserve | 0.0 | 83.9 | 161.1 |
| **Reserves and Surplus (F)** | 104147.5 | 117082.3 | 130351.1 |
| **Miscellaneous expenditure (G)** | 55.0 | 35.6 | 29.4 |
| **NET WORTH (E+F-G)** | **146180.9** | **159135.1** | **172410.1** |

**Statement of Cash Flows**

*(Rs. in Million)*

| | Particulars | Fiscal Year Ended March 31, 2009 | Fiscal Year Ended March 31, 2010 | Half Year Ended September 30, 2010 (Unaudited Reviewed) |
|---|---|---|---|---|
| **A.** | **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| | Net profit before tax | 22285.7 | 26263.2 | 18569.0 |
| | **Adjustment for :** | | | |
| | Depreciation (including prior period) | 11159.3 | 19787.3 | 10491.3 |
| | Transfer from Grants in Aid | (214.5) | (265.3) | (131.3) |
| | Adjustment against General Reserve | 0.0 | 147.2 | 0.0 |
| | Amortised Expenditure(DRE written off) | 18.3 | 17.8 | 8.9 |
| | Provisions | 386.0 | 132.6 | (363.2) |
| | Self Insurance | (0.4) | (3.4) | (4.5) |
| | Net Loss on Disposal / Write off of Fixed Assets | 38.2 | 38.3 | 23.4 |
| | Interest and Finance Charges | 25320.9 | 15432.4 | 8090.5 |
| | FERV gain | 0.0 | (46.9) | 0.0 |
| | Interest earned on bonds/Loans to State Govts. | (1329.9) | (1164.1) | (520.0) |
| | Dividend received | (195.4) | (243.7) | (427.2) |
| | **Operating profit before Working Capital Changes** | **57468.2** | **60095.4** | **35736.9** |
| | **Adjustment for :** | | | |
| | Trade and other Receivables | 1535.2 | (7879.5) | (6173.7) |
| | Inventories | (493.2) | (473.2) | (177.1) |
| | Trade payables and other liabilities | 24979.8 | 15276.8 | 23.3 |
| | Other current assets | 286.5 | (240.1) | (166.2) |
| | Deferred Income/Expenditure from Foreign Currency Fluctuation(Net) | 6177.6 | (4394.1) | 297.6 |
| | Deferred Foreign Currency Fluctuation Asset/Liability(Net) | (14348.6) | 9681.6 | 2.5 |
| | Loans and Advances | (8157.5) | (3576.8) | 6552.2 |
| | Deferred Revenue Expenditure | (1.4) | 1.6 | (2.7) |
| | | **9978.4** | **8396.3** | **355.9** |
| | Direct taxes paid (including FBT) | (1540.2) | (2300.0) | (2312.1) |
| | **Net Cash from operating activities** | **65906.4** | **66191.7** | **33780.7** |
| **B.** | **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| | Fixed assets (including incidental expenditure during construction) | (7708.2) | (1477.0) | (1875.1) |
| | Capital work in progress | (53528.9) | (64777.2) | (35956.1) |
| | Advances for capital expenditure | (32998.9) | (34272.4) | (11199.0) |
| | (Increase)/Decrease in Investments - Bonds and others | 1828.9 | 1866.3 | 25.0 |
| | (Increase)/Decrease in investments -JVs and Subsidiaries | (395.0) | (470.6) | (344.0) |
| | Lease receivables | (290.7) | 1114.5 | (390.6) |
| | Interest earned on bonds/Loans to State Govts. | 1329.9 | 1164.1 | 520.0 |
| | Dividend received | 195.4 | 243.7 | 427.2 |
| | **Net cash used in investing activities** | **(91567.5)** | **(96608.6)** | **(48011.4)** |
| **C.** | **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| | Loans raised during the year - Long Term<br>Gross loan raised without FERV Adjustment Rs. 80237.3 million (Previous Year Rs. 5717.0 million) | 76298.5 | 68487.7 | 37869.5 |

| | | | |
|---|---|---|---|
| Loans repaid during the year - Long Term | (14278.9) | (13927.2) | (8297.2) |
| Loans raised during the year - Short Term | 7500.0 | 12500.0 | 0.0 |
| Loans repaid during the year - Short Term | (7500.0) | (7500.0) | (7500.0) |
| Interest and Finance Charges Paid | (24816.4) | (14746.8) | (5006.4) |
| Dividend paid | (5050.8) | (5050.8) | 0.0 |
| Dividend Tax paid | (858.4) | (858.4) | 0.0 |
| **Net Cash from Financing Activities** | **31294.0** | **38904.5** | **17065.9** |
| D. Net change in Cash and Cash equivalents(A+B+C) | **5632.9** | **8487.6** | **2835.2** |
| E. Cash and Cash equivalents(Opening balance) | 18655.9 | 24288.8 | 32776.4 |
| F. Cash and Cash equivalents(Closing balance) | **24288.8** | **32776.4** | **35611.6** |

Note:

Cash and cash equivalents consist of cash in hand and balance with banks and it includes Rs. 33965.5 million (for the year 2009-10 Rs. 29296.6 million and Rs. 16198.2 million for 2008-09) not available for use by the Company.

## THE ISSUE

| | |
|---|---|
| Issue | 841,768,246 Equity Shares |
| *Of which* | |
| Fresh Issue | 420,884,123 Equity Shares |
| Offer for Sale | 420,884,123 Equity Shares* |
| *Of which* | |
| Employee Reservation Portion# | 3,389,600 Equity Shares |
| | |
| Therefore, | |
| | |
| **Net Issue to the Public#** | **838,378,646 Equity Shares** |
| *Of which* | |
| | |
| A) QIB Portion** | Up to 419,189,323 Equity Shares*** |
| *Of which* | |
| Available for allocation to Mutual Funds only | 20,959,467 Equity Shares *** |
| Balance for all QIBs including Mutual Funds | 398,229,856 Equity Shares*** |
| | |
| B) Non-Institutional Portion | Not less than 125,756,797 Equity Shares*** |
| | |
| C) Retail Portion | Not less than 293,432,526 Equity Shares*** |
| | |
| **Pre and post-Issue Equity Shares** | |
| Equity Shares outstanding prior to the Issue | 4,208,841,230 Equity Shares |
| Equity Shares outstanding after the Issue | 4,629,725,353 Equity Shares |
| | |
| Use of Issue proceeds | See the section titled "***Objects of the Issue***" on page 43 |

** The Equity Shares offered by the Selling Shareholder in the Issue have been held by it for more than a period of one year as on the date of filing of this Red Herring Prospectus. The MoP, through its letter (F. No. 11/10/2010-PG) dated July 27, 2010, conveyed the approval granted by the GoI for the Issue, including the Offer for Sale.*

*** 5% of the QIB Portion shall be available for allocation on a proportionate basis to Mutual Funds only. The remainder will be available for allocation on a proportionate basis to QIBs and Mutual Funds, subject to valid Bids being received at or above the Issue Price. For more information, see "**Issue Procedure**" on page 376. Allocation will be made on a proportionate basis.*

**** In the event of over-subscription, allocation will be made on a proportionate basis, subject to valid Bids being received at or above the Issue Price.*

*# Any under-subscription in the Employee Reservation Portion will be added to the Net Issue. In the event of under-subscription in the Net Issue, spill over to the extent of under-subscription will be allowed from the Employee Reservation Portion. Subject to valid Bids being received at or above the Issue Price, any under-subscription in any other category will be allowed to be met with spill-over from other categories or a combination of categories, at the discretion of the Selling Shareholder and our Company, in consultation with the BRLMs and the Designated Stock Exchange.*

Our Company and the Selling Shareholder, in consultation with the BRLMs, proposes a discount of 5% of the Issue Price determined pursuant to completion of the Book Building Process, to Retail Bidders and Eligible Employees Bidding in the Employee Reservation Portion.

For more information, see "***Terms of the Issue***" on page 372.

## GENERAL INFORMATION

Our Company was incorporated on October 23, 1989 under the Companies Act as a public limited company under the name 'National Power Transmission Corporation Limited'. We received a certificate for commencement of business on November 8, 1990. The name of our Company was changed to its present name 'Power Grid Corporation of India Limited' and a fresh certificate of incorporation was issued on October 23, 1992. For further details, see "***History and Certain Corporate Matters***" on page 130.

**Registered Office of our Company**

Power Grid Corporation of India Limited
B-9, Qutab Institutional Area,
Katwaria Sarai,
New Delhi 110 016
India

**Corporate Office of our Company**

"Saudamini", Plot No. 2, Sector 29,
Gurgaon 122 001
Haryana
India
Tel: +91 (124) 2571 968
Fax: +91 (124) 2571 891

| Details | Registration/Identification number |
|---|---|
| Registration Number | 55-38121 |
| Corporate Identification Number | L40101DL1989GOI038121 |

For more information on changes in our Registered Office, see "***History and Certain Corporate Matters***" on page 130.

**Address of the Registrar of Companies**

Our Company is registered at the office of:

The Registrar of Companies
National Capital Territory of Delhi and Haryana
4th Floor, IFCI Tower
61, Nehru Place
New Delhi 110 019
India
Tel: + 91 (11) 2623 5704
Fax: + 91 (11) 2623 5702

**Board of Directors**

The following table sets out the current details regarding our Board as on the date of the filing of this Red Herring Prospectus:

| Name, Designation and DIN | Age | Address |
|---|---|---|
| Mr. S.K. Chaturvedi | 59 | Bungalow No. FF1, Powergrid Residential Township, Complex, |

| Name, Designation and DIN | Age | Address |
|---|---|---|
| **Designation:** Chairman and Managing Director<br><br>**DIN:** 00007840 | | Sector - 43, Gurgaon 122 002, Haryana |
| Mr. J. Sridharan<br><br>**Designation:** Director (Finance) - Whole-time<br><br>**DIN:** 00245043 | 59 | Bungalow No. GG3, Powergrid Residential Township Complex, Sector – 43, Gurgaon 122 002, Haryana |
| Mr. V.M. Kaul<br><br>**Designation:** Director (Personnel) - Whole-time<br><br>**DIN:** 00015245 | 58 | 485, Mandakini Enclave, New Delhi 110 019 |
| Mr. R.N. Nayak<br><br>**Designation:** Director (Operations) - Whole-time<br><br>**DIN:** 02658070 | 55 | Bunglow No. GG2, Powergrid Residential Township, Complex, Sector – 43, Gurgaon 122 002, Haryana |
| Mr. I.S. Jha<br><br>**Designation:** Director (Projects) - Whole-time<br><br>**DIN:** 00015615 | 51 | House No. 654, Sector 10 A, Gurgaon 122001, Haryana |
| Dr. M. Ravi Kanth<br><br>**Designation:** Government Nominee<br><br>**DIN:** 01612905 | 49 | D-II/25, Shahjahan Road, New Delhi 110 011 |
| Mr. Rakesh Jain<br><br>**Designation:** Government Nominee<br><br>**DIN:** 02682574 | 53 | D-II/62, Kaka Nagar, New Delhi 110 003 |
| Mr. S.C. Tripathi<br><br>**Designation:** Independent Director<br><br>**DIN:** 00941922 | 64 | House No. 27, Sector – 15A, Noida 201 301, Uttar Pradesh |
| Mr. Ashok Khanna<br><br>**Designation:** Independent Director<br><br>**DIN:** 01510677 | 62 | House No. 765, Sector – 8B, Chandigarh 160 008, Punjab |
| Mrs. Sarita Prasad<br><br>**Designation:** Independent Director<br><br>**DIN:** 02288208 | 64 | C-622, Ground Floor, New Friends Colony, New Delhi 110 025 |
| Dr. P.K. Shetty<br><br>**Designation:** Independent Director<br><br>**DIN:** 01661260 | 48 | 386, Krishna, 4th Cross, I Block, R. T. Nagar, Bangalore 560 032 Karnataka |
| Dr. A. S. Narag<br><br>**Designation:** Independent Director | 64 | 24, Cavalry Lines, University Campus, Delhi 110 007 |

| Name, Designation and DIN | Age | Address |
|---|---|---|
| **DIN:** 01677040 | | |
| Mr. Anil K. Agarwal<br><br>**Designation:** Independent Director<br><br>**DIN:** 00000100 | 55 | House No. A-1, Anand Niketan, New Delhi 110 021 |
| Mr. F. A. Vandrevala<br><br>**Designation:** Independent Director<br><br>**DIN:** 00956609 | 60 | 1802-18th floor, Evita, Central Avenue, Hiranandani Garden, Powai, Mumbai 400 076, Maharashtra |

For further information, see "***Our Management***" on page 164.

**Company Secretary and Compliance Officer**

Ms. Divya Tandon,
"Saudamini", Plot No.2, Sector 29,
Gurgaon 122 001
Haryana
India
Tel: +91 (124) 2571 968
Fax: +91 (124) 2571 891
E-mail: investors@powergridindia.com

Bidders may contact our Company Secretary and Compliance Officer, the BRLMs or the Registrar to the Issue in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of Allotment and credit of Allotted Equity Shares in the respective beneficiary account or refund orders.

**Book Running Lead Managers**

**SBI Capital Markets Limited**
202, Maker Tower E
Cuffe Parade
Mumbai 400 005
Maharashtra
India
Tel: +91 (22) 2217 8300
Fax: +91 (22) 2218 8332
Email: powergrid.fpo@sbicaps.com
Investor Grievance E-mail:
investor.relations@sbicaps.com
Website: www.sbicaps.com
Contact Person: Mr. Harsh Soni/Ms. Neha Pruthi
SEBI Registration No.: INM000003531

**Goldman Sachs (India) Securities Private Limited**
951-A Rational House
Appasaheb Marathe Marg
Prabhadevi
Mumbai 400 025
Maharashtra
India
Tel: +91 (22) 6616 9000
Fax: +91 (22) 6616 9090
Email: powergrid.fpo@gs.com
Investor Grievance E-mail: india-client-support@gs.com
Website: http://www2.goldmansachs.com/worldwide/india/indian_offerings.html
Contact Person: Ms. Priya Subbaraman
SEBI Registration No.: INM000011054

**ICICI Securities Limited**
ICICI Centre, H.T. Parekh Marg
Churchgate
Mumbai 400 020
Maharashtra
India

**J.P. Morgan India Private Limited**
J.P. Morgan Tower
Off C.S.T. Road
Kalina, Santacruz (East)
Mumbai 400 098
Maharashtra

Tel: +91 (22) 2288 2460
Fax: +91 (22) 2282 6580
Email: powergrid.fpo@icicisecurities.com
Investor Grievance E-mail:
customercare@icicisecurities.com
Website: www.icicisecurities.com
Contact Person: Mr. Vishal Kanjani
SEBI Registration No.: INM000011179

India
Tel: + 91 (22) 6157 3000
Fax: + 91 (22) 6157 3911
Email: project-powergridfpo@jpmorgan.com
Investor Grievance E-mail:
investorsmb.jpmipl@jpmorgan.com
Website: www.jpmipl.com
Contact Person: Mr. Manu Midha
SEBI Registration No.: INM000002970

**Syndicate Members**

***SBICAP Securities Limited***
191, Maker Tower F
19th Floor, Cuffe Parade
Mumbai 400 005
Maharashtra, India
Tel: +91 (22) 3047 8591
Fax: +91 (22) 3046 8670
E-mail: archana.dedhia@sbicapsec.com
Website: www.sbicapsec.com
Contact Person: Ms. Archana Dedhia
SEBI Registration Nos.: BSE: INB011053031, NSE: INB231052938

***India Infoline Limited***
10th Floor, One IBC
841, Senapati Bapat Marg
Lower Parel (West)
Mumbai 400 013
India
Tel: +91 (22) 4646 4600
Fax: +91 (22) 2421 5600
E-mail: project.powergrid@iiflcap.com
Website: www.iiflcap.com
Contact Person: Mr. Pinak R. Bhattacharyya
SEBI Registration Nos.: INM000010940

**Domestic Legal Advisors to our Company and the Selling Shareholder**

***Amarchand & Mangaldas & Suresh A. Shroff & Co.***
Amarchand Towers
216, Okhla Industrial Estate, Phase – III
New Delhi 110 020
India
Tel.: +91 (11) 2692 0500
Fax: +91 (11) 2692 4900

**Domestic Legal Advisors to the Underwriters**

***AZB & Partners***
AZB House
Plot No. A8, Sector 4
Noida 201 301
Uttar Pradesh

India
Tel: +91 (120) 4179 999
Fax: +91 (120) 4179 900

**International Legal Counsel to our Company and the Selling Shareholder**

***Dorsey & Whitney (Australia) LLP***
Level 31, Aurora Place
88, Philip Street
Sydney
New South Wales 2000
Australia
Tel: +61 (02) 8211 0435
Fax: +61 (02) 8211 0555

**International Legal Counsel to the Underwriters**

***O'Melveny & Myers LLP***
9 Raffles Place
# 22-01/02 Republic Plaza 1
Singapore 048619
Tel: + (65) 6593 1800
Fax: + (65) 6593 1801

**Registrar to the Issue**

**Karvy Computershare Private Limited**
Plot No. 17 - 24, Vithal Rao Nagar
Madhapur
Hyderabad 500 081
India
Tel : + (91 40) 4465 5000
Fax : + (91 40) 2343 1551
E-mail: pgcil.fpo@karvy.com
Website: www.karvy.com
Contact Person: Mr. M. Muralikrishna
SEBI Registration No: INR000000221

**Self Certified Syndicate Banks**

The list of banks that have been notified by SEBI to act as SCSB for the Applications Supported by Blocked Amount ("**ASBA**") Process are provided on http://www.sebi.gov.in/pmd/scsb.pdf. For more information on the Designated Branches collecting ASBA Bid cum Application Forms, see the above SEBI link.

**Bankers to our Company**

**Punjab National Bank**
ECE House, 28A, K.G. Marg
New Delhi 110 001
India
Tel : +91 (11) 2373 9131
Fax: +91 (11) 2371 0118
E-mail : pnbecehouse@hotmail.com
Website: www.pnbindia.com
Contact Person: Ms. Rita Bublani

**IDBI Bank Limited**
Indian Red Cross Building
1 Red Cross Road
New Delhi 110 001
India
Tel : +91 (11) 6628 1025
Fax: +91 (11) 2375 2730
E-mail : jaiprakash_nathaniel@idbibank.co.in
Website: www.idbi.com
Contact Person: Mr. M. Jai Prakash

**Bank of Baroda**
Madhuban 55, Nehru Place
New Delhi 110 019
India
Tel : +91 (11) 2641 4979
Fax: +91 (11) 2646 3657
E-mail : nehrup@bankofbaroda.com
Website: www.bankofbaroda.com
Contact Person: Mr. S. K. Khanna

**Canara Bank**
Prime Corporate, Br. I
No. 1, DDA Building, First Floor
38 Nehru Place
New Delhi 110 019
India
Tel : +91 (11) 2641 1518
Fax: +91 (11) 2641 6895
E-mail : agmdelhi@canbank.co.in
Website: www.canarabank.com
Contact Person: Mr. Devendra Arora

**Union Bank of India**
73-74 Sheetla House, Nehru Place
New Delhi 110 019
India
Tel : +91 (11) 2641 2541
Fax: +91(11) 2621 6937
E-mail : nehruplace@unionbankofindia.com
Website: www.unionbankofindia.co.in
Contact Person: Mr. R. A. Pal

**State Bank of Hyderabad**
16 Kundan House, Nehru Place
New Delhi 110 019
India
Tel : +91 (11) 2647 0229
Fax: +91 (11) 2642 1638
E-mail : sbhnehruplace@yahoo.co.in
Website: www.sbhyd.com
Contact Person: Mr. M. A. Subhan and Mr. G. Krishna Mohan

**Dena Bank**
35-36 Agarwal Bhawan
First Floor, Nehru Place
New Delhi 110 019
India
Tel : +91 (11) 2643 1420
Fax: +91 (11) 2647 9877
E-mail : nehrup@denabank.com
Website: www.denabank.com
Contact Person: Mr. Pankaj B. Gupta

**ICICI Bank Limited**
9A Phelps Building, Connaught Place
New Delhi 110 001
India
Tel : +91 (11) 6631 0340
Fax: +91 (11) 6631 0420
E-mail : madhur.jain@icibank.com
Website: www.icicibank.com
Contact Person: Mr. Madhur Jain

**State Bank of Bikaner & Jaipur**
Bassi
Jaipur 303 301
Rajasthan
India
Tel: +91 (1429) 222 226
Fax: +91 (1429) 222 226
E-mail: sbbj10039@sbbj.co.in
Website: www.sbbj.co.in
Contact Person: Mr. Ashok Mera

**Jammu & Kashmir Bank**
G-40 Connaught Place
New Delhi 110 001
India
Tel : +91 (11) 4151 6126
Fax: +91 (11) 4162 7506
E-mail : circus@jkmail.com
Website: www.jkbank.net
Contact Person: Mr. Khurshid A. Fazil

**HDFC Bank Limited**
B-6/3 Safdarjung Enclave
DDA Commercial Complex
Opposite Deer Park
New Delhi 110 029
India
Tel: +91 (11) 4139 2121
Fax: +91 (11) 4165 2283
E-mail: l.k.dhamija@hdfcbank.com
Website: www.hdfcbank.com
Contact Person: Mr. L. K. Dhamija

**State Bank of Patiala**
Chandralok Building, 2nd Floor
36 Janpath
New Delhi 110 001
India
Tel : +91 (11) 2332 1398
Fax : +91 (11) 2335 4365
Email : sbpcbnd@yahoo.co.in
Website : www.statebankofpatiala.com
Contact Person : Mr. Suyash Asthana

**Allahabad Bank**
Palm Road, Civil Lines
Post Box No. 14
Nagpur 440 001
Maharashtra
India
Tel: +91 (712) 2533 255/+91 (712) 2550 742
Fax: +91 (712) 2521 460
E-mail: br.nag_nagpur_c1@allahabadbank.in
Website: www.allahabadbank.in
Contact Person: Mr. P. K. Auddy

**Central Bank of India**
Near Anjali Cinema Hall
Shillong 793 001
Meghalaya
India
Tel : +91 (364) 2544 154
Fax : +91 (364) 2545 892
E-mail : bmguwa@centralbank.co.in
Website : www.centralbankofindia.co.in
Contact Person : Mr. H. B. Lenka

**Indian Bank**
Mehrauli Institutional Area
ISI Campus, 7 S. J. S. Marg
Katwaria Sarai, Hauz Khas
New Delhi 110 016
India
Tel: +91 (11) 2696 2276
Fax: +91 (11) 2685 0578
E-mail: mehrauliinstitutionalarea@indianbank.co.in
Website: www.indianbank.in
Contact Person: Mr. S. Ramachandran Rao

**State Bank of Mysore**
Kaggalipura
Bangalore South Taluk
Bangalore 560 062
Karnataka
India
Tel: +91 (80) 2843 2222
Fax: +91 (80) 2843 2826
E-mail: kaggalipura@sbm.co.in
Website: www.statebankofmysore.co.in
Contact Person: Mr. Narayan Bhat

**State Bank of Travancore**
P.B. No. 1, Kakkanad Civil Station Building
Kakkanad, P.O., Ernakulam 682 030
Kerala
India
Tel: +91 (484) 2423 843
Fax: +91 (484) 2422 242
E-mail: kakkanades@sbt.co.in
Website: www.statebankoftravancore.com
Contact Person: Mr. Sudha Raja Verma

**Bank of India**
Patna Main Branch
Uday Bhawan, Fraser Road
Patna 800 001
Bihar
India
Tel: +91 (612) 2231 337
Fax: +91 (612) 2221 266
E-mail: Chandra.Prasad@bankofindia.co.in
Website: www.bankofindia.com
Contact Person: Mr. Chandra Bhushan Prasad

**Bankers to the Issue and Escrow Collection Banks**

**ICICI Bank Limited**
Capital Markets Division
30, Mumbai Samachar Marg
Mumbai 400 001
India
Tel : +91 (22) 6631 0322/6631 0312
Fax: +91 (22) 2261 1138/6631 0350
E-mail : viral.bharani@icicibank.com
Website: www.icicibank.com
Contact Person: Mr. Viral Bharani
SEBI Registration Number: INBI00000004

**Union Bank of India**
Marketing Government Cell
M-11, 2nd Floor, Middle Circle
Connaught Circus New Delhi 110 001
India
Tel : +91 (11) 2341 4229
Fax: +91 (11) 2341 3686
E-mail : hkbehera@unionbankofindia.com
Website: www.unionbankofindia.com
Contact Person: Mr. H.K. Behera
SEBI Registration Number: INBI00000006

**IDBI Bank Limited**
Unit No.2, Corporate Park
Sion Trombay Road
Chembur, Mumbai 400 071
India
Tel : +91 (22) 6690 8402
Fax: +91 (22) 2528 6173
E-mail : mn.kamat@idbi.co.in
Website: www.idbibank.com
Contact Person: Mr. M.N. Kamat
SEBI Registration Number: INBI00000076

**YES Bank Limited**
2nd Floor, Tiecicon House
Dr. E. Moses Road
Mahalaxmi, Mumbai 400 011
India
Tel : +91 (22) 6622 9031
Fax: +91(22) 2497 4875
E-mail : dlbtiservices@yesbank.in
Website: www.yesbank.in
Contact Person: Mr. Mahesh Sirali
SEBI Registration Number: INBI00000935

**HDFC Bank Limited**
FIG-OP5 Department
HDFC Bank Limited
Lodha – I, Think Techno Campus
O-3 Level, Next to Kanjurmarg Railway Station
Kanjurmarg (East), Mumbai 400 042
India
Tel : +91 (22) 3075 2928
Fax: +91 (22) 2579 9801
E-mail : deepak.rane@hdfcbank.com
Website: www.hdfcbank.com
Contact Person: Mr. Deepak Rane
SEBI Registration Number: INB100000063

**Axis Bank Limited**
148, Statesman House
Barakhamba Road
New Delhi 110 001
India
Tel : +91 (11) 2331 1043/4152 1301
Fax: +91 (11) 2331 1054
E-mail : amit.mishra@axisbank.com
Website: www.axisbank.com
Contact Person: Mr. Amit Mishra
SEBI Registration Number: INBI00000017

**Indusind Bank Limited**
Cash Management Services
IBL House, 1st Floor
Cross B Road, MIDC, J.B. Nagar
Off-Andheri Kurla Road, Andheri (East)
Mumbai 400 059
India
Tel: +91 (22) 6772 8721
Fax: +91 (22) 6641 2349
E-mail: prasanna.vaidyanathan@indusind.com
harpal@indusind.com
Website: www.indusind.com
Contact Person: Ms. Prasanna Vaidyanathan/
Mr. Harpal Singh
SEBI Registration Number: INBI00000002

**Kotak Mahindra Bank Limited**
5th Floor, Dani Corporate Park
158 CST Road, Santacruz (E)
Mumbai 400 098
India
Tel: +91 (22) 6759 5336
Fax: +91 (22) 6759 5374
E-mail: amit.kr@kotak.com
Website: www.kotak.com
Contact Person: Mr. Amit Kumar
SEBI Registration Number: INBI00000927

**State Bank of India**
Videocon Heritage (Killie House), Ground Floor
Charanjit Rai Marg
Mumbai 400 001
India
Tel: +91 (22) 2209 4932
Fax: +91 (22) 2209 4921
E-mail: nib.11777@sbi.co.in /
sbi11777@yahoo.co.in
Website: www.statebankofindia.com
Contact Person: Ms. Surekha Shinde
SEBI Registration Number: INBI00000038

**Refund Banks**

**ICICI Bank Limited**
Capital Markets Division
30, Mumbai Samachar Marg
Mumbai 400 001
India
Tel : +91 (22) 6631 0322/6631 0312
Fax: +91 (22) 2261 1138/6631 0350
E-mail : viral.bharani@icicibank.com
Website: www.icicibank.com
Contact Person: Mr. Viral Bharani
SEBI Registration Number: INBI00000004

**IDBI Bank Limited**
Unit No.2, Corporate Park
Sion Trombay Road
Chembur, Mumbai 400 071
India
Tel : +91 (22) 6690 8402
Fax: +91 (22) 2528 6173
E-mail : mn.kamat@idbi.co.in
Website: www.idbibank.com
Contact Person: Mr. M.N. Kamat
SEBI Registration Number: INBI00000076

**HDFC Bank Limited**
FIG-OP5 Department
HDFC Bank Limited
Lodha – I, Think Techno Campus
O-3 Level, Next to Kanjurmarg Railway Station
Kanjurmarg (East), Mumbai 400 042
India
Tel : +91 (22) 3075 2928
Fax: +91 (22) 2579 9801
E-mail : deepak.rane@hdfcbank.com

Website: www.hdfcbank.com
Contact Person: Mr. Deepak Rane
SEBI Registration Number: INB100000063

**Statutory Auditors of our Company**

**A. R & Company**
C-1, IInd Floor, R.D.C.,
Raj Nagar,
Ghaziabad 201 002
Uttar Pradesh
India
Tel: +91 (120) 275 5869/+91 9810444051
Fax: +91 (120) 2755 125
Email: pawangoel@sify.com
Firm Registration No.: 002744C

**Umamaheshwara Rao & Co.**
Flat No. 5-H, "D" Block
8-3-324, Krishna Apartments
Yellareddyguda Lane
Ameerpet, "X" Roads
Hyderabad 500 073
Andhra Pradesh
India
Tel: +91 (40) 2375 1833
Fax: +91 (40) 2375 1823
Email: ucognt@yahoo.co.in
Firm Registration No.: 004453S

**S R I Associates**
3-B, Garstin Place
Kolkata 700 001
West Bengal
India
Tel: +91 (33) 2210 1175
Fax: +91 (33) 2248 6771
Email: sasso@cal2.vsnl.net.in
Firm Registration No.: 305109E

**Credit Rating**

As the Issue is of Equity Shares, credit rating is not required.

**Trustees**

As the Issue is of Equity Shares, the appointment of trustees is not required.

**IPO Grading**

As this is not an initial public offer ("**IPO**") of our Company's Equity Shares, grading of this Issue is not required.

**Monitoring Agency**

**IFCI Limited**
IFCI Tower
61, Nehru Place
New Delhi 110 019
India
Tel: +91 (11) 4173 2000
Fax: +91 (11) 2648 7424
Email: ciasd@ifciltd.com
Website: www.ifciltd.com

The Monitoring Agency has been appointed pursuant to Regulation 16 of the SEBI Regulations.

**Experts**

Except for the Auditor's Report of the Auditors of our Company on the audited financial information, included in this Red Herring Prospectus, our Company has not obtained any expert opinions.

**Statement of Inter se Allocation of Responsibilities for the Issue**

The following table sets forth the *inter se* allocation of responsibilities for various activities in relation to this Issue among the BRLMs:

| S. No. | Activity | Responsibility | Designated Coordinating Book Running Lead Manager |
|---|---|---|---|
| 1. | Capital structuring with relative components and formalities such as type of instruments., etc. | SBICAP, GS, JPM, I-Sec | SBICAP |
| 2. | Due-diligence of our Company including operations/management/business plans/legal, etc. drafting and design of this Red Herring Prospectus including the memorandum containing salient features of the Prospectus. The Book Running Lead Managers shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, the RoC and SEBI, including finalisation of Prospectus and the RoC filing | SBICAP, GS, JPM, I-Sec | SBICAP |
| 3. | Drafting and approving all statutory advertisements | SBICAP, GS, JPM, I-Sec | SBICAP |
| 4. | Drafting and approving non-statutory advertisements including corporate advertisements | SBICAP, GS, JPM, I-Sec | I-Sec |
| 5. | Preparation and finalization of the road-show presentation and frequently asked questions for the road-show team | SBICAP, GS, JPM, I-Sec | GS |
| 6. | Appointment of intermediaries, viz.,<br>i. Printer(s)<br>ii. Registrar to the Issue<br>iii. Advertising agency<br>iv. Bankers to the Issue | SBICAP, GS, JPM, I-Sec | i. Printer(s): I-Sec<br>ii. Registrar to the Issue: JPM<br>iii. Advertising agency: I-Sec<br>iv. Bankers to the Issue: JPM |

| S. No. | Activity | Responsibility | Designated Coordinating Book Running Lead Manager |
|---|---|---|---|
| 7. | Non-institutional and retail marketing of the Issue, which will cover, *inter alia*,<br>• Formulating marketing strategies, preparation of publicity budget<br>• Finalizing media and public relations strategy<br>• Finalizing centers for holding conferences for brokers, etc.<br>• Follow-up on distribution of publicity and Issue material including application form, prospectus and deciding on the quantum of the Issue material<br>• Finalizing collection centers | SBICAP, GS, JPM, I-Sec | I-Sec |
| 8. | International Institutional marketing<br>International Institutional marketing of the Issue, which will cover, *inter alia*,<br>• Institutional marketing strategy<br>• Finalizing the list and division of investors for one to one meetings, and<br>• Finalizing road show schedule and investor meeting schedules | SBICAP, GS, JPM, I-Sec | GS |
| 9. | Domestic Institutional marketing<br>• Domestic Institutional marketing of the Issue<br>• Finalizing the list and division of investors for one to one meetings<br>• Finalizing road show schedule and investor meeting schedules | SBICAP, GS, JPM, I-Sec | I-Sec |
| 10 | Co-ordination with Stock Exchanges for Book Building Process software, bidding terminals and mock trading | SBICAP, GS, JPM, I-Sec | GS |
| 11 | Managing the book and finalisation of pricing in consultation with our Company | SBICAP, GS, JPM, I-Sec | GS |
| 12 | Post bidding activities including essential follow-up steps with Bankers to the Issue and Self Certified Syndicate Bank to get quick estimates of collection and advising the Company about the closure of Issue, management of escrow accounts, co-ordination of allocation, finalization of basis of Allotment/weeding out of multiple applications, intimation of allocation and dispatch of certificates or demat credit and refunds to bidders, dealing with the various agencies connected with the work such as Registrars to the Issue, Bankers to the Issue, Self Certified Syndicate Banks and the bank handling refund business, etc. The designated coordinating Book Running Lead Manager shall be responsible for ensuring that the intermediaries fulfill their functions and enable him to discharge this responsibility through suitable agreements with the Company. | SBICAP, GS, JPM, I-Sec | JPM |

**Book Building Process**

Book building refers to the process of collection of Bids on the basis of the Red Herring Prospectus, the Bid cum Application Forms and the ASBA Forms. The Issue Price will be determined by the

Selling Shareholder and our Company, in consultation with the BRLMs, after the Bid Closing Date. The principal parties involved in the Book Building Process are:

1. Our Company;
2. The Selling Shareholder;
3. The BRLMs;
4. Syndicate Members;
5. The Registrar to the Issue;
6. The Escrow Collection Banks; and
7. SCSBs.

The Issue is being made through the Book Building Process wherein up to 50% of the Net Issue will be allocated to QIBs on a proportionate basis. Further, not less than 15% and 35% of the Net Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and Retail Bidders, respectively, subject to valid Bids being received at or above the Issue Price. Further, 3,389,600 Equity Shares will be made available for allocation on a proportionate basis to Eligible Employees, subject to valid Bids being received at or above the Issue Price. Any Bidder may participate in the Issue through the ASBA process by providing details of the ASBA Accounts in which the corresponding Bid Amounts will be blocked by the SCSBs. For more information, specific attention is invited to "***Issue Procedure***" on page 376. Any unsubscribed portion in any reserved category will be added to the Net Issue to the public. Under subscription, if any, in any category, would be allowed to be met with spill-over from any other category or combination of categories at the discretion of our Company and the Selling Shareholder, in consultation with the BRLMs and the Designated Stock Exchange. For more information on Bids by Mutual Funds, see "***Issue Procedure***" on page 376.

**In accordance with the SEBI Regulations, QIBs are not allowed to withdraw their Bid(s) after the Bid Closing Date for QIBs, i.e., November 11, 2010.** For further details, see "***Issue Structure***" on page 368.

We will comply with the SEBI Regulations and any other ancillary directions issued by SEBI for this Issue. In this regard, we have appointed the BRLMs to manage the Issue and procure subscriptions to the Issue.

**The Book Building Process under the SEBI Regulations is subject to change from time to time and Bidders are advised to make their own judgment about investment through this process prior to making a Bid in the Issue.**

**Steps to be taken by the Bidders for Bidding:**

- Check eligibility for making a Bid. For further details, see "***Issue Procedure***" on page 376;
- Ensure that you have a PAN and the demat account details are correctly mentioned in the Bid cum Application Form or the ASBA Form, as the case may be;
- Ensure that the Bid cum Application Form or the ASBA Form is duly completed as per the instructions given in the Red Herring Prospectus and in the respective forms;
- Except for bids on behalf of the Central or State Government and the officials appointed by the courts, for Bids of all values ensure that you have mentioned your PAN allotted under the I.T. Act in the Bid cum Application Form and the ASBA Form (see "***Issue Procedure***" on page 376). However, Bidders residing in the State of Sikkim are exempted from the mandatory requirement of PAN. The exemption is subject to the Depository Participants' verifying the veracity of the claim of the Bidders that they are residents of Sikkim, by collecting sufficient documentary evidence in support of their address;
- Ensure the correctness of your PAN, DPID and Client ID given in the Bid cum Application Form and the ASBA Form. Based on these three parameters, the Registrar to the Issue will

obtain details of the Bidders from the Depositories including Bidder's name, bank account, number, etc.;

- Bids by QIBs (excluding ASBA Bidders) will only have to be submitted to the BRLMs and their affiliates; and
- Bids by ASBA Bidders will have to be submitted to the Designated Branches. ASBA Bidders should ensure that the specified bank accounts have adequate credit balance at the time of submission to the SCSB to ensure that the ASBA Form is not rejected.

**Illustration of Book Building Process and the Price Discovery Process**

*(Bidders should note that the following is solely for the purpose of illustration and is not specific to the Issue)*

Bidders can bid at any price within the Price Band. For instance, assuming a price band of ₹ 20 to ₹ 24 per share, an offer size of 3,000 equity shares and receipt of five bids from bidders, details of which are shown in the table below, the illustrative book would be as given below. A graphical representation of the consolidated demand and price would be made available at the bidding centers during the bidding period. The illustrative book shown below indicates the demand for the shares of the company at various prices and is collated from bids from various bidders.

| Bid Quantity | Bid Price (₹) | Cumulative Quantity | Subscription (%) |
|---|---|---|---|
| 500 | 24 | 500 | 16.67 |
| 1,000 | 23 | 1,500 | 50.00 |
| 1,500 | 22 | 3,000 | 100.00 |
| 2,000 | 21 | 5,000 | 166.67 |
| 2,500 | 20 | 7,500 | 250.00 |

The price discovery is a function of demand at various prices. The highest price at which the offeror is able to issue the desired number of shares is the price at which the book cuts off, i.e., ₹ 22 in the above example. The offeror, in consultation with the BRLMs, will finalize the issue price at or below such cut off, i.e., at or below ₹ 22. All bids at or above this issue price and cut-off bids are valid bids and are considered for allocation in the respective categories.

**Withdrawal of the Issue**

In accordance with the SEBI Regulations, our Company and the Selling Shareholder, in consultation with the BRLMs, reserve the right not to proceed with the Issue at anytime including after the Bid Opening Date but before Allotment. Provided, if the Selling Shareholder and our Company withdraw the Issue after the Bid Closing Date, our Company will give the reason thereof within two days of the Bid Closing Date by a public notice in the same newspapers where the pre-Issue advertisement had appeared. The Stock Exchanges will also be informed promptly and the BRLMs, through the Registrar to the Issue, will notify the SCSBs to unblock the bank accounts specified by the ASBA Bidders within one day from the date of receipt of such notification.

In the event the Selling Shareholder and our Company, in consultation with the BRLMs, withdraw the Issue after the Bid Closing Date, a fresh offer document will be filed with the RoC/SEBI in the event we subsequently decide to proceed with the public offering.

Notwithstanding the foregoing, the Issue is also subject to obtaining (i) the final listing and trading approvals of the Stock Exchanges, which our Company will apply for after Allotment, and (ii) the final RoC approval of the Prospectus.

**In terms of the SEBI Regulations, QIBs are not allowed to withdraw their Bids after the Bid Closing Date. Since, the Bidding Period for QIBs closes one day prior to the Bid Closing Date for other non-QIB Bidders, QIBs will not be able to withdraw their Bids after November 11, 2010.**

<table>
<tr><th colspan="4">BIDDING PROGRAMME</th></tr>
<tr><td rowspan="2">BID OPENS ON</td><td rowspan="2">NOVEMBER 9, 2010</td><td>BID CLOSES ON (FOR QIB BIDDERS)</td><td>NOVEMBER 11, 2010</td></tr>
<tr><td>BID CLOSES ON (FOR ALL OTHER BIDDERS)</td><td>NOVEMBER 12, 2010</td></tr>
</table>

Bids and any revision in Bids will be accepted **only between 10.00 a.m. and 5.00 p.m.** (Indian Standard Time) during the Bidding Period at the Bidding centers mentioned in the Bid cum Application Form, or in the case of ASBA Bidders, at the Designated Branches, **except that on the Bid Closing Date (which for QIBs will be a day prior to the Bid Closing Date for other non-QIB Bidders), Bids will be accepted only between 10.00 a.m. and 3.00 p.m.** (Indian Standard Time) and uploaded until (i) 5.00 p.m. in case of Bids by QIB Bidders, Retail Bidders and Eligible Employees; and until (ii) 4.00 p.m. for Non-Institutional Bidders. Due to limitation of time available for uploading the Bids on the Bid Closing Date, Bidders other than QIB Bidders are advised to submit their Bids one day prior to the Bid Closing Date and no later than 3.00 p.m. (Indian Standard Time) on the Bid Closing Date. Bidders other than QIB Bidders are cautioned that in the event a large number of Bids are received on the Bid Closing Date, as is typically experienced in public issues, which may lead to some Bids not being uploaded due to lack of sufficient time to upload, such Bids that cannot be uploaded will not be considered for allocation in the Issue. If such Bids are not uploaded, our Company, the Selling Shareholder and the Syndicate will not be responsible. Bids will be accepted only on Working Days, *i.e.*, Monday to Friday (excluding any public holiday).

On the Bid Closing Date, extension of time will be granted by the Stock Exchanges only for uploading the Bids received from Retail Bidders and Eligible Employees, after taking into account the total number of Bids received up to the closure of timings for acceptance of Bid cum Application Forms and ASBA Bid cum Application Forms as stated herein and reported by the BRLMs to the Stock Exchanges within half an hour of such closure.

Our Company and the Selling Shareholder, in consultation with the BRLMs, reserve the right to revise the Price Band during the Bidding Period in accordance with the SEBI Regulations. The Cap Price will be less than or equal to 120% of the lower end of the Price Band and the lower end of the Price Band will not be less than the face value of the Equity Shares. Subject to compliance with the immediately preceding sentence, the lower end of the Price Band can move up or down to the extent of 20% of the lower end of the Price Band as disclosed at least one Working Day prior to the Bid Opening Date and the upper end of the Price Band will be revised accordingly.

**In case of revision in the Price Band, the Bidding Period will be extended for at least three additional Working Days after revision of Price Band subject to the Bidding Period not exceeding 10 Working Days. Any revision in the Price Band and the revised Bidding Period, if applicable, will be widely disseminated by notification to the Stock Exchanges, by issuing a press release, by indicating the change on the websites of the BRLMs and at the terminals of the Syndicate and by intimation to the SCSBs.**

**Underwriting Agreement**

After the determination of the Issue Price, but prior to filing of the Prospectus with the RoC, our Company and the Selling Shareholder intend to enter into an underwriting agreement with the Underwriters for the Equity Shares proposed to be offered through this Issue as per the SEBI

Regulations. Pursuant to the terms of the underwriting agreement, the obligations of the Underwriters are several and are subject to certain conditions to closing, as specified therein.

The underwriting agreement is dated [●]. The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

*(This portion has been intentionally left blank and will be completed before filing of the Prospectus with the RoC)*

| Name and Address of the Underwriters | Indicative Number of Equity Shares to be Underwritten* | Amount Underwritten (In ₹ million)* |
|---|---|---|
| [●] | [●] | [●] |
| [●] | [●] | [●] |
| [●] | [●] | [●] |
| [●] | [●] | [●] |

**The information will be finalized after determination of the Issue Price and finalization of the 'basis of allocation'.*

In the opinion of the Board of Directors (based on a representation given by the Underwriters), the resources of the Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. Each of the Underwriters is registered with SEBI under Section 12(1) of the SEBI Act or as a broker with the Stock Exchanges. Pursuant to a meeting of a committee of our Directors held on [●], 2010, the Selling Shareholder and our Board have accepted and entered into the Underwriting Agreement dated [●], 2010.

Allocation among the Underwriters may not necessarily be in the proportion of their underwriting commitments. Notwithstanding the above table, the Underwriters will be severally responsible for ensuring payment with respect to the Equity Shares allocated to Bidders procured by them. In the event of any default in payment, the respective Underwriter, in addition to other obligations mentioned in the underwriting agreement, will also be required to procure/subscribe for Equity Shares to the extent of the defaulted amount in accordance with the underwriting agreement.

# CAPITAL STRUCTURE

Our share capital as on the date of filing of this Red Herring Prospectus with the RoC is set forth below.

*(₹ in million, except share data)*

| | Aggregate nominal value | Aggregate Value at Issue Price |
|---|---|---|
| **A. Authorised Capital*** | | |
| 10,000,000,000 Equity Shares of ₹ 10 each | 100,000.0 | - |
| **B. Issued, Subscribed and Paid-Up Capital before the Issue** | | |
| 4,208,841,230 Equity Shares of ₹ 10 each | 42,088.4 | - |
| **C. Present Issue in terms of this Red Herring Prospectus**** | | |
| **Issue of :** 841,768,246 Equity Shares of ₹ 10 each fully paid up | 8,417.7 | [•] |
| **Comprising :** | | |
| • Fresh Issue of 420,884,123 Equity Shares of ₹ 10 each fully paid-up. | 4,208.8 | [•] |
| • Offer for Sale of 420,884,123 Equity Shares of ₹ 10 each fully paid-up. | 4,208.8 | [•] |
| **D. Employee Reservation in terms of this Red Herring Prospectus** | | |
| Up to 3,389,600 Equity Shares of ₹ 10 each fully paid up | 33.9 | [•] |
| **E. Net Issue to the Public** | | |
| 838,378,646 Equity Shares of ₹ 10 each fully paid up | 8,383.8 | [•] |
| **Of Which:** | | |
| QIB Portion of up to 419,189,323 Equity Shares: | 4,191.9 | [•] |
| Non-Institutional Portion of not less than 125,756,797 Equity Shares (available for allocation): | 1,257.6 | [•] |
| Retail Portion of not less than 293,432,526 Equity Shares (available for allocation): | 2,934.3 | [•] |
| **F. Equity Capital after the Issue** | | |
| 4,629,725,353 Equity Shares of ₹ 10 each fully paid up | 46,297.3 | [•] |
| **G. Share Premium Account** | | |
| Before the Issue (as on September 30, 2010) | 15,831.4 | |
| After the Issue | [•] | |

* *For more information on changes in the authorised share capital of our Company, see "**History and Certain Corporate Matters**" on page 130.*

*** The Issue has been authorised by a resolution of our Board dated July 2, 2010, and a resolution of our shareholders, by way of a postal ballot, dated October 8, 2010. The MoP, through its letter (F. No. 11/10/2010-PG) dated July 27, 2010, conveyed the approval by the GoI for the Issue.*

The Selling Shareholder has offered 420,884,123 Equity Shares as part of the Issue. This amounts to 10% of the pre-Issue equity capital of our Company. The Equity Shares constituting the Offer for Sale portion have been held by the Selling Shareholder for a period of at least one year prior to the filing of the Prospectus with the RoC.

The President of India presently holds 86.36% of the issued and paid up equity capital of our Company. After the Issue, the shareholding of the President of India will be 69.42% of the fully diluted post Issue paid-up equity capital of our Company.

**Notes to the Capital Structure**

**1. Build-up of Promoter's shareholding and Lock-in**

**(a) *Details of the build up of our Promoter's shareholding in our Company:***

| Date of Allotment/Transfer | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment | Cumulative Shareholding of the Promoter |
|---|---|---|---|---|---|---|
| October 23, 1989 | 11 | 1,000 | 1,000 | Cash | Allotment of shares to the President of India, acting through MoP, and his nominees on subscription to the Memorandum and Articles of Association | 11 |
| November 9, 1990 | 5,989 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 6,000 |
| December 24, 1990 | 10,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 16,000 |
| June 25, 1991 | 35,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 51,000 |
| October 24, 1991 | 25,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 76,000 |
| March 9, 1992 | 435,000 | 1,000 | 1,000 | Cash | Further issue to the President of India acting through the MoP | 511,000 |
| May 13, 1992 | 100,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 611,000 |
| July 30, 1992 | 16,700 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 627,700 |

| Date of Allotment/Transfer | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment | Cumulative Shareholding of the Promoter |
|---|---|---|---|---|---|---|
| September 22, 1992 | 11,300 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 639,000 |
| November 19, 1992 | 36,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 675,000 |
| February 3, 1993 | 20,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 695,000 |
| March 22, 1993 | 16,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 711,000 |
| April 22, 1993 | 40,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 751,000 |
| July 9, 1993 | 530,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 1,281,000 |
| November 24, 1993 | 920,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 2,201,000 |
| January 17, 1994 | 180,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 2,381,000 |
| January 17, 1994 | 77,819 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 2,458,819 |
| March 18, 1994 | 370,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 2,828,819 |
| March 18, 1994 | 52,500 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 2,881,319 |
| June 7, 1994 | 5,675,000 | 1,000 | 1,000 | Other than cash against conversion of loan | Further issue to the President of India, acting through MoP | 8,556,319 |
| June 7, 1994 | 1,096,800 | 1,000 | 1,000 | Partly for consideration | Further issue to the President of | 9,653,119 |

| Date of Allotment/Transfer | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment | Cumulative Shareholding of the Promoter |
|---|---|---|---|---|---|---|
| | | | | other than cash on account of capitalisation of interest | India, acting through MoP | |
| September 27, 1994 | 17,780,511 | 1,000 | 1,000 | Partly for consideration other than cash against transfer of assets of NTPC Limited, NHPC Limited and North Eastern Electric Power Corporation Limited (“**NEEPCO**”) | Further issue to the President of India, acting through MoP | 27,433,630 |
| November 8, 1994 | 65,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 27,498,630 |
| April 7, 1995 | 503,600 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 28,002,230 |
| April 7, 1995 | 57,179 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,059,409 |
| August 31, 1995 | 50,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,109,409 |
| August 31, 1995 | 84,131 | 1,000 | 1,000 | Other than cash against transfer of assets of Tehri Hydro Development Corporation Limited | Further issue to the President of India, acting through MoP | 28,193,540 |
| January 16, 1996 | 100,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,293,540 |
| May 21, 1996 | 50,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,343,540 |

| Date of Allotment/Transfer | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment | Cumulative Shareholding of the Promoter |
|---|---|---|---|---|---|---|
| June 20, 1996 | 78,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 28,421,540 |
| March 4, 1997 | 150,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,571,540 |
| April 10, 1997 | 50,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,621,540 |
| September 17, 1997 | 15,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,636,540 |
| December 6, 1997 | 50,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,686,540 |
| February 2, 1998 | 100,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 28,786,540 |
| March 22, 1999 | 50,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 28,836,540 |
| August 12, 1999 | 50,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 28,886,540 |
| April 24, 2000 | 30,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 28,916,540 |
| January 5, 2001 | 50,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 28,966,540 |
| January 5, 2001 | 35,200 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 29,001,740 |
| March 22, 2001 | 58,200 | 1,000 | 1,000 | Cash | Further issue to the President of | 29,059,940 |

| Date of Allotment/Transfer | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment | Cumulative Shareholding of the Promoter |
|---|---|---|---|---|---|---|
| | | | | | India, acting through the MoDoNER | |
| July 26, 2001 | 39,300 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 29,099,240 |
| March 28, 2002 | 1,190,746 | 1,000 | 1,000 | Partly for consideration other than cash against transfer of assets of Neyveli Lignite Corporation Limited | Further issue to the President of India, acting through MoP | 30,289,986 |
| October 25, 2002 | 62,500 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through the MoDoNER | 30,352,486 |
| January 28, 2005 | 1,300,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 31,652,486 |
| September 16, 2005 | 1,000,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 32,652,486 |
| October 17, 2005 | 1,250,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 33,902,486 |
| January 17, 2006 | 600,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 34,502,486 |
| March 27, 2006 | 1,343,800 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 35,846,286 |
| June 13, 2006 | 330,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 36,176,286 |
| July 5, 2006 | 27,787 | 1,000 | 1,000 | Other than cash against transfer of assets of Tehri Hydro Development Corporation Limited * | Further issue to the President of India, acting through MoP | 36,204,073 |

| Date of Allotment/Transfer | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment | Cumulative Shareholding of the Promoter |
|---|---|---|---|---|---|---|
| August 3, 2006 | 1,200,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 37,404,073 |
| November 23, 2006 | 470,000 | 1,000 | 1,000 | Cash | Further issue to the President of India, acting through MoP | 37,874,073 |
| *Each Equity Share of our Company of face value ₹1,000 has been split into 100 Equity Shares of the face value of ₹10 each, pursuant to a shareholders' resolution dated March 28, 2007.* | | | | | | |
| April 14, 2007 | 38,812,000 | 10 | 10 | Other than cash against transfer of assets of National Hydroelectric Power Corporation Limited | Further issue to the President of India, acting through MoP | 3,826,219,300 |
| September 26, 2007 | (191,310,965) | 10 | 52 | Cash | Offer for sale by the President of India, acting through MoP, under the initial public offering by our Company | 3,634,908,335 |

** Pursuant to the CAG audit with respect to the transfer of assets from Tehri Hydro Development Corporation Limited in August 1993, it was observed that there was an error in arriving at the net purchase consideration by Tehri Hydro Development Corporation Limited at the time of transfer of assets to our Company. The net purchase consideration was consequently amended through letter no. 3/5/2003 – H.I. of the MoP dated September 28, 2006 from ₹84.13 million to ₹111.92 million. Accordingly, our Company was required to issue an additional 27,787 equity shares of ₹1,000 each, with effect from August 1, 1993, towards the differential in the net purchase consideration for the assets transferred to our Company.*

**(b) *Equity Shares issued for consideration other than cash:***

Except as detailed below, no Equity Shares of our Company have been issued for consideration other than cash:

| Date of Allotment | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment |
|---|---|---|---|---|---|
| June 7, 1994 | 5,675,000 | 1,000 | 1,000 | Other than cash against conversion of loan | Further issue to the President of India, acting through MoP |
| June 7, 1994 | 1,096,800 | 1,000 | 1,000 | Partly for consideration other than cash on account of | Further issue to the President of India, acting through MoP |

| Date of Allotment | Number of Equity Shares | Face Value (₹) | Issue price per Equity Share (₹) | Consideration (cash, bonus, consideration other than cash) | Nature of Allotment |
|---|---|---|---|---|---|
| | | | | capitalisation of interest | |
| September 27, 1994 | 17,780,511 | 1,000 | 1,000 | Partly for consideration other than cash against transfer of assets of NTPC Limited, NHPC Limited and NEEPL | Further issue to the President of India, acting through MoP |
| August 31, 1995 | 84,131 | 1,000 | 1,000 | Other than cash against transfer of assets of Tehri Hydro Development Corporation Limited | Further issue to the President of India, acting through MoDoNER |
| March 28, 2002 | 1,190,746 | 1,000 | 1,000 | Partly for consideration other than cash against transfer of assets of Neyveli Lignite Corporation Limited | Further issue to the President of India, acting through MoP |
| July 5, 2006 | 27,787 | 1,000 | 1,000 | Other than cash against transfer of assets of Tehri Hydro Development Corporation Limited* | Further issue to the President of India, acting through MoP |
| April 14, 2007 | 38,812,000 | 10 | 10 | Other than cash against transfer of assets of National Hydroelectric Power Corporation Limited | Further issue to the President of India, acting through MoP |

** Pursuant to the CAG audit with respect to the transfer of assets from Tehri Hydro Development Corporation Limited in August 1993, it was observed that there was an error in arriving at the net purchase consideration by Tehri Hydro Development Corporation Limited at the time of transfer of assets to our Company. The net purchase consideration was consequently amended through letter no. 3/5/2003 – H.I. of the MoP dated September 28, 2006 from ₹84.13 million to 111.92 million. Accordingly, our Company was required to issue an additional 27,787 equity shares of ₹1,000 each, with effect from August 1, 1993, towards the differential in the net purchase consideration for the assets transferred to our Company.*

**(c) *Details of Equity Shares locked in for one year:***

The post-Issue shareholding of the MoP and the MoDoNER, acting on behalf of the President of India, in our Company shall be locked-in, i.e., an aggregate of 3,214,024,212 Equity Shares, for a period of one year from the date of Allotment or for such other time as may be required in terms of Regulation 36(b) of the SEBI Regulations.

**(d)** ***Other requirements in respect of lock-in:***

As per Regulation 39 read with Regulation 36(b) of the SEBI Regulations, the locked in Equity Shares held by the Promoter, as specified above, may be pledged only with banks or financial institutions as collateral security for loans granted by such banks or financial institutions, provided that the pledge of the Equity Shares is one of the terms of the sanction of the loan.

In terms of Regulation 40 of the SEBI Regulations, the Equity Shares held by the Promoter may be transferred *inter se* or to new promoters or persons in control of our Company subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable.

## 2. Shareholding Pattern of our Company

| Shareholders | Pre-Issue (as on September 30, 2010) | | Post-Issue* | |
|---|---|---|---|---|
| | No. of Equity Shares | Percentage of shareholding | No. of Equity Shares | Percentage of shareholding |
| **Promoter (A)** | | | | |
| President of India, including where acting through nominees | 3,634,908,335 | 86.36 | [•] | [•] |
| **Sub-Total (A)** | **3,634,908,335** | **86.36** | **[•]** | **[•]** |
| **Public shareholding (B)** | | | | |
| **Institutions (B1)** | | | | |
| Mutual Funds | 14,589,747 | 0.35 | [•] | [•] |
| Financial Institutions/Banks | 53,783,686 | 1.28 | [•] | [•] |
| Insurance Companies | 171,044,407 | 4.06 | [•] | [•] |
| Foreign Institutional Investors | 69,267,120 | 1.65 | [•] | [•] |
| **Sub-Total (B)(1)** | **308,684,960** | **7.33** | **[•]** | **[•]** |
| **Non-institutions (B2)** | | | | |
| Bodies Corporate | 78,429,989 | 1.86 | [•] | [•] |
| Individuals | | | | |
| Individual shareholders holding nominal share capital up to ₹ 0.10 million | 154,528,588 | 3.67 | [•] | [•] |
| Individual shareholders holding nominal share capital in excess of ₹ 0.10 million | 9,579,873 | 0.23 | [•] | [•] |
| Non Resident Indians | 6,061,846 | 0.14 | [•] | [•] |
| Foreign Nationals | 3,218 | Negligible | [•] | [•] |
| OCBs | 2,000 | Negligible | [•] | [•] |
| Trusts | 875,662 | 0.02 | [•] | [•] |
| Clearing Members | 3,704,244 | 0.09 | [•] | [•] |
| HUF | 5,965,051 | 0.14 | [•] | [•] |
| Employees | 6,097,464 | 0.14 | [•] | [•] |
| **Sub-Total (B)(2)** | **265,247,935** | **6.30** | **[•]** | **[•]** |
| **Public (Pursuant to the Issue) (B)(3)** | **0** | **0.00** | **[•]** | **[•]** |
| **Total Public Shareholding (B) = (B)(1)+(B)(2)+(B)(3)** | **573,932,895** | **13.64** | **[•]** | **[•]** |
| **GRAND TOTAL** | **4,208,841,230** | **100.00** | **[•]** | **[•]** |

| Shareholders | Pre-Issue (as on September 30, 2010) | | Post-Issue* | |
|---|---|---|---|---|
| | No. of Equity Shares | Percentage of shareholding | No. of Equity Shares | Percentage of shareholding |
| (A)+(B) | | | | |

*To be finalized at the time of filing the Prospectus

3. A total of 0.4% of the Issue, i.e. 3,389,600 Equity Shares, has been reserved for allocation to Eligible Employees on a proportionate basis, subject to valid Bids being received at the Issue Price and subject to the maximum Bid Amount by each Eligible Employee not exceeding ₹ 100,000. Only Eligible Employees are eligible to apply in this Issue under the Employee Reservation Portion. Bids by Eligible Employees bidding under the Employee Reservation Portion may also be made in the Net Issue and such Bids will not be treated as multiple Bids. If the aggregate demand in the Employee Reservation Portion is greater than 3,389,600 Equity Shares at the Issue Price, allocation will be made on a proportionate basis.

4. Any unsubscribed portion in any reserved category will be added to the Net Issue to the public. In case of under-subscription in the Net Issue to the public category, spill-over to the extent of under-subscription will be permitted from the reserved category to the Net Issue to the public. Under subscription, if any, would be allowed to be met with spill-over from any other category or combination of categories at the discretion of our Company and the Selling Shareholder in consultation with the BRLMs and the Designated Stock Exchange.

5. A Bidder cannot make a Bid for more than the number of Equity Shares offered through the Net Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of Bidders.

6. Our Promoter will not participate in this Issue.

7. Neither our Promoter nor our Directors and their immediate relatives have purchased or sold any Equity Shares during the period of six months immediately preceding the date of filing of this Prospectus with the RoC.

8. Except Mr. J. Sridharan, Mr. V.M. Kaul, Mr. R.N. Nayak, Mr. I.S. Jha, Dr. P.K. Shetty, Dr. A.S. Narag and Mr. F.A. Vandrevala, none of our Directors hold Equity Shares of our Company. For more information, see "***Our Management***" on page 164.

9. As on the September 30, 2010, the total number of holders of our Equity Shares is 792,096.

10. Except as disclosed under "***Capital Structure – Notes to capital Structure – Note 1(b) – Equity Shares issued for consideration other than cash***" above, our Company has not issued any Equity Shares for consideration other than cash.

11. Our Company has not issued any Equity Shares out of its revaluation reserves.

12. Our Promoter, our Company, our Directors and the BRLMs have not entered into any buy-back or standby arrangements for purchase of Equity Shares from any person.

13. India Infoline Limited is acting as an underwriter in consortium with one of our BRLMs, SBI Capital Markets Limited, in this Issue. The BRLMs and their associates have no Equity Shareholding in our Company, except as set forth below:

| S. No. | Name of Entity | Number of Equity Shares |
|---|---|---|
| 1. | Goldman Sachs Investments (Mauritius) I Limited (as of October 13, 2010)* | 842,462 |

| S. No. | Name of Entity | Number of Equity Shares |
|---|---|---|
| 2. | India Infoline Limited (as of October 19, 2010)** | 268,000 |
| 3. | ICICI Securities Limited along with its associates (as of October 15, 2010)*** | 20,491,165 |

** Associate of Goldman Sachs (India) Securities Private Limited.*
*** As part of its proprietary shareholding. IIFL is acting as an underwriter in consortium with one of our BRLMs, SBI Capital Markets Limited, in this Issue.*
****Associates of ICICI Securities Limited being, ICICI Bank Limited, ICICI Prudential Asset Management Company Limited, ICICI Prudential Life Insurance Company Limited (including shares held by ICICI Prudential Index Fund).*

14. There are no outstanding warrants, options or rights to convert debentures, loans or other instruments into our Equity Shares as on the date of this Red Herring Prospectus.

15. There will be only one denomination of the Equity Shares, unless otherwise permitted by law. We will comply with such disclosure and accounting norms as may be specified by SEBI from time to time.

16. There has been no financing arrangement by which the Directors of our Company and their relatives have financed the purchase by any other person of securities of our Company other than in the normal course of business of the financing entity during the period of six months immediately preceding the date of filing of this Red Herring Prospectus with the RoC.

17. No Equity Shares held by our Promoter are subject to any pledge.

18. Our Company does not have any scheme of employee stock option or employee stock purchase.

19. Our Company has not issued any Equity Shares at a price lesser than the Issue Price in the last one year preceding the date of filing this Red Herring Prospectus.

20. The Equity Shares transferred/Allotted pursuant to the Issue will be fully paid-up at the time of Allotment, failing which no Allotment will be made.

21. Our Company will ensure that transactions in the Equity Shares by our Promoter between the date of filing of this Red Herring Prospectus and the Bid Closing Date will be intimated to the Stock Exchanges within 24 hours of such transaction.

## OBJECTS OF THE ISSUE

The Issue comprises a Fresh Issue by our Company and an Offer for Sale by the Selling Shareholder.

**The Offer for Sale**

The object of the Offer for Sale is to carry out the disinvestment of 420,884,123 Equity Shares of ₹ 10 each by the Selling Shareholder. Our Company will not receive any of the proceeds from the Offer for Sale.

**The Fresh Issue**

The objects of the Fresh Issue are to:

(a) to meet the capital requirements for the implementation of certain identified transmission projects ("**Identified Projects**"); and

(b) general corporate purposes.

The main objects clause of our Memorandum of Association enables us to undertake our existing activities and the activities for which the funds are being raised by us in the Fresh Issue. Further, we confirm that the activities we have been carrying out until now are in accordance with the objects clause of our Memorandum of Association.

*(In ₹ million)*

| S. No. | Particulars | Amount* |
|---|---|---|
| 1. | Gross Proceeds of the Issue | [●] |
| 2. | Issue related Expenses | [●] |
| 3. | Offer for Sale portion | [●] |
| 4. | Net Proceeds of the Issue | [●] |
| | **Total** | [●] |

**To be finalised on determination of Issue Price.*

**Requirement of Funds and Means of Finance**

The fund requirements described below are based on management estimates, our Company's current business plan and appraisals of the Identified Projects by the management of our Company as well as certain banks or financial institution.

In view of the dynamic nature of the sector and specifically that of our business, we may have to revise our expenditure and fund requirements as a result of variations in cost estimates, exchange rate fluctuations and external factors which may not be within the control of our management. This may entail rescheduling and revising the planned expenditures and fund requirements and increasing or decreasing expenditures for a particular purpose at the discretion of our management, within the objects of the Issue mentioned above.

We intend to utilize the net proceeds of the Issue, excluding the proceeds of the Offer for Sale and the Issue related expenses, ("**Net Proceeds**") of ₹ [●] for financing the objects as set forth below.

*(In ₹ million)*

| | Total Estimated Cost | Amount deployed as of September 30, 2010 (1) | | Amount proposed to be financed from Net Proceeds | Balance amount proposed to be financed from loans and identifiable internal accruals |
|---|---|---|---|---|---|
| | | Equity | Debt | | |
| Fund expenditure to meet the capital requirements for the implementation of the Identified Projects | 226,493.9 | 26,470.8 | 71,311.7 | 38,000.0 | 90,711.4 |
| Fund expenditure for general corporate purposes | [●]* | - | - | [●]* | - |
| **Total** | [●]* | 26,470.8 | 71,311.7 | [●]* | 90,711.4 |

*(1) As certified by Ajay Agarwal & Co, Chartered Accountants by certificate dated October 15, 2010*
** To be finalised on determination of Issue Price*

Whilst we intend to utilize the Net Proceeds in the manner provided above, in the event of a surplus, we will use such surplus towards general corporate purposes including meeting future growth requirements. In case of variations in the actual utilization of funds earmarked for the purposes set forth above, increased fund requirements for a particular purpose may be financed by surplus funds, if any, available in respect of the other purposes for which funds are being raised in this Issue. In the event of any shortfall in the Net Proceeds, our Company will bridge the fund requirements from identifiable internal accruals, debt or equity financing.

**Details of the Objects**

***1. Fund expenditure to meet the capital requirements for the implementation of the Identified Projects***

We are developing 13 identified transmission projects. The Identified Projects include projects for strengthening of our existing transmission lines or grids and projects for establishing new transmission lines connecting new generating plants. The transmission projects are expected to enhance the length of our transmission system by 18,711 circuit kilometers.

The details of each of the Identified Projects including the nature of the project, expected date of commissioning and total project cost are set forth below:

| S. No. | Name of project | Nature of the project | Circuit kms | MVA (unless otherwise indicated) | Expected year of commissioning# | Approved Cost as per Investment Approvals (In ₹ million) | Latest estimated project costs as on September 30, 2010 (In ₹ million) |
|---|---|---|---|---|---|---|---|
| 1. | Western Region Strengthening Scheme – II | Grid Strengthening | 6,959 | 1,260 | March 2011 | 35,814.0 | 35,689.9 |
| 2. | Strengthening of East-West Transmission | Inter-regional Grid Strengthening | 1,150 | - | December 2010 | 8,037.0 | 7,409.4 |

| S. No. | Name of project | Nature of the project | Circuit kms | MVA (unless otherwise indicated) | Expected year of commissioning# | Approved Cost as per Investment Approvals (In ₹ million) | Latest estimated project costs as on September 30, 2010 (In ₹ million) |
|---|---|---|---|---|---|---|---|
| | Corridor | | | | | | |
| 3. | Transmission System associated with Mundra Ultra Mega Power Project | Generation linked (Thermal) | 3,604 | 6,390 | October 2012 | 48,241.2 | 46,820.0 |
| 4. | Western Region Strengthening Scheme - IX | Grid strengthening | 45 | 630 | March 2011 | 2,308.9 | 1,410.0 |
| 5. | Transmission System associated with Sasan Ultra Mega Power Project | Generation linked (Thermal) | 2,197 | 10,000 | December 2012 | 70,318.8 | 58,850.0 |
| 6. | Southern Region Strengthening Scheme – X | Grid strengthening | 60 | 1,000 | April 2012 | 2,766.1 | 2,240.0 |
| 7. | Western Region Strengthening Scheme – X | Grid strengthening | 14 | 3,000 | February 2012 | 6,670.2 | 7,130.0 |
| 8. | Northern Region Strengthening Scheme – XIII | Grid strengthening | 38 | 1,000 | November 2011 | 3,176.9 | 3,240.0 |
| 9. | Transmission System for Barh Generation Project** | Generation linked (Thermal) | 2,465 | 2,500 | March 2011 | 37,794.6 | 41,128.9 |
| 10. | System Strengthening in Northern Region for Sasan and Mundra Ultra Mega Power Projects | Grid strengthening | 1,212 | 1,260 | August 2012 | 12,168.3 | 10,850.0 |
| 11. | Transmission System associated with Korba – III Generation Project (500 MW) | Generation linked (Thermal) | 424 | - | March 2011 | 2,766.1 | 2,763.1 |
| 12. | Transmission | Generation | 543 | 630 | June 2011 | 5,572.4 | 6,162.6 |

| S. No. | Name of project | Nature of the project | Circuit kms | MVA (unless otherwise indicated) | Expected year of commissioning# | Approved Cost as per Investment Approvals (In ₹ million) | Latest estimated project costs as on September 30, 2010 (In ₹ million) |
|---|---|---|---|---|---|---|---|
| | System for Parbati – III Hydro Electric Project | linked (Hydro Electric | | | | | |
| 13. | Transmission system for Mouda Generation Project (2 x 500 MW) | Generation linked (Thermal) | 370 | - | October 2012 | 4693.8 | 2,800.0 |
| **Total** | | | **18,711** | **27,670** | | **240,300.8*** | **226,493.9*** |

** The total approved cost of the Identified Projects is ₹ 240,300.8 million. However, project costs are subject to on-going variation primarily on account of escalation clause for change in the prices of raw materials in the contracts entered into with the contractors, increase/decrease in the actual interest rate from the budgeted interest rate, additional interest costs incurred due to delay in projects and changes in statutory duties and taxes. The above latest estimated project cost for each project is as on September 30, 2010, based on our management estimates. In the event we exceed the approved cost beyond prescribed limits in implementing a certain project, such variation would need to be approved by our Board.*

*** This project was included as one of the identified objects in the Company's IPO. However, due to delays in commissioning of the generation project, the project has been delayed, resulting in an increase in the project cost. To fund this increased project cost, our Company proposes to deploy a portion of the Net Proceeds, as described above.*

*# For details relating to delays experienced and anticipated with respect to our Identified Projects, see "**Risk Factor - Certain transmission projects for which we intend to utilize proceeds from the net issue have been delayed.**"*

We have received certain government approvals required for undertaking these projects. For further details of the approval obtained for these projects and pending approvals, see "***Government and Other Approvals***" and "***Risk Factors***" on pages 328 and xiv, respectively.

**Details of Means of Finance for the Identified Projects**

The aggregate of the latest estimated project cost of the Identified Projects as on September 30, 2010 is ₹ 226,493.9 million. These projects are proposed to be funded with a debt-equity ratio of 70:30 in accordance with CERC norms. The equity component of the Identified Projects is to be funded by a combination of identifiable internal accruals of our Company and the proceeds of the Fresh Issue.

Details of the means of finance for the Identified Projects are as follows:

*(In ₹ million)*

| | Particulars | Amount |
|---|---|---|
| I. | *Aggregate of the latest estimated project cost of the Identified Projects as on September 30, 2010* | 226,493.9 |
| | a) Expenditure already incurred as on September 30, 2010 | 97,782.5* |
| | b) Amount proposed to be financed from the Net Proceeds | 38,000.0 |
| | c) Amount proposed to be financed from our existing identifiable internal accruals as on September 30, 2010 | 14,750.0** |
| | d) Funding required excluding the Net Proceeds and our existing identifiable internal accruals as on September | 75,961.4 |

| Particulars | | Amount |
|---|---|---|
| | 30, 2010 | |
| | | |
| II. | *Arrangements regarding 75% of the funds required excluding the Net Proceeds and our existing identifiable internal accruals (i.e. as per I(d) above)* | 56,971.0 |
| | a) Undrawn foreign debt currency facilities*** | 31,580.0 |
| | b) Proceeds from bonds issuances**** | 34,875.0 |
| | **Total** | **66,455.0** |

** As certified by Ajay Agarwal & Co, Chartered Accountants by certificate dated October 15, 2010.*

*** For the six month period ended September 30, 2010, our Company earned a profit after tax of ₹ 13,545.8 million while the operating cash flow was ₹ 33,780.7 million. As at September 30, 2010, our Company has available cash and bank balance of ₹ 1,646.1 million.*

**** To be drawn from four loan facilities sanctioned by the World Bank: (i) amount of US$ 600 million as per loan agreement dated March 28, 2008 towards the transmission system for Barh Generation Project, (ii) amount of US$ 400 million as per loan agreement dated May 2, 2006 towards the transmission system for Barh Generation Project and the Western Region Strengthening Scheme-II, (iii) amount of US$ 400 million as per loan agreement dated January 27, 2009 towards the transmission system for Barh Generation Project, the Western Region Strengthening Scheme-II and strengthening of the East-West Transmission Corridor, and (iv) amount of US$ 1,000 million as per loan agreement dated October 13, 2009 towards the transmission system associated with Mundra Ultra Mega Power Project, the transmission system associated with Sasan Ultra Mega Power Project Sasan and system strengthening of the Northern Region for Sasan and Mundra Ultra Mega Power Projects. For details, see "**Financial Indebtedness**" on page 282.*

***** Our Company has completed the issuance of 8.84% (taxable) non-cumulative, non convertible secured redeemable bonds in the aggregate principal amount of ₹ 34,875.0 million on a private placement basis on October 21, 2010, as certified by Ajay Agarwal & Co, Chartered Accountants by certificate dated October 21, 2010. For details, see "**Financial Indebtedness**" on page 282.*

Except as disclosed above, the entire requirements of the objects detailed above are intended to be funded from the Net Proceeds. The balance amount will be funded through a combination of debt and internal accruals. In view of above, we confirm that, with respect to each of the Identified Projects, our Company has made firm arrangement of finance through verifiable means towards 75% of the stated means of finance, excluding the amount proposed to be raised through the Issue and our existing identifiable internal accruals, and ensuring that the our projects are funded in the debt equity ratio of 70:30.

**Schedule of Expenditure**

The schedule of expenditure for each Identified Project is set forth below:

*(In ₹ million)*

| S. No | Name of project | Latest estimated project costs as on September 30, 2010 | Expenditure incurred as on September 30, 2010* | Estimated expenditure for Fiscal 2011 | Estimated expenditure for Fiscal 2012 | Estimated expenditure for Fiscal 2013 | Estimated expenditure for Fiscal 2014 | Estimated expenditure for Fiscal 2015 |
|---|---|---|---|---|---|---|---|---|
| 1. | Western Region Strengthening Scheme – II | 35,689.9 | 26,464.9 | 5,186.6 | 1,765.6 | 4,000.0 | 1,419.7 | 0.0 |
| 2. | Strengthening of East-West | 7,409.4 | 6,206.5 | 739.4 | 650.0 | 70.3 | 0.0 | 0.0 |

| S. No | Name of project | Latest estimated project costs as on September 30, 2010 | Expenditure incurred as on September 30, 2010* | Estimated expenditure for Fiscal 2011 | Estimated expenditure for Fiscal 2012 | Estimated expenditure for Fiscal 2013 | Estimated expenditure for Fiscal 2014 | Estimated expenditure for Fiscal 2015 |
|---|---|---|---|---|---|---|---|---|
| | Transmission Corridor | | | | | | | |
| 3. | Transmission System associated with Mundra Ultra Mega Power Project | 46,820.0 | 9,207.8 | 11,670.4 | 9,441.9 | 12,000.0 | 6,190.0 | 2,000.0 |
| 4. | Western Region Strengthening Scheme - IX | 1,410.0 | 521.6 | 524.7 | 460.0 | 132.8 | 0.0 | 0.0 |
| 5. | Transmission System associated with Sasan Ultra Mega Power Project | 58,850.0 | 13,283.1 | 10,540.4 | 15,123.8 | 18,000.0 | 6,539.9 | 0.0 |
| 6. | Southern Region Strengthening Scheme – X | 2,240.0 | 316.6 | 242.4 | 883.1 | 815.3 | 0.0 | 0.0 |
| 7. | Western Region Strengthening Scheme – X | 7,130.0 | 688.1 | 1,994.9 | 814.9 | 3,000.0 | 725.3 | 0.0 |
| 8. | Northern Region Strengthening Scheme – XIII | 3,240.00 | 173.00 | 865.4 | 950.0 | 950.0 | 320.6 | 0.0 |
| 9. | Transmission System for Barh Generation Project | 41,128.9 | 34,121.2 | 1,947.9 | 2,593.3 | 3,003.8 | 0.0 | 0.0 |
| 10. | System Strengthening in Northern Region for Sasan and Mundra Ultra Mega Power Projects | 10,850.0 | 1,100.7 | 2,514.3 | 3,886.5 | 2,750.0 | 999.3 | 0.0 |

| S. No | Name of project | Latest estimated project costs as on September 30, 2010 | Expenditure incurred as on September 30, 2010* | Estimated expenditure for Fiscal 2011 | Estimated expenditure for Fiscal 2012 | Estimated expenditure for Fiscal 2013 | Estimated expenditure for Fiscal 2014 | Estimated expenditure for Fiscal 2015 |
|---|---|---|---|---|---|---|---|---|
| 11. | Transmission System associated with Korba – III Generation Project (500 MW) | 2,763.1 | 1,581.2 | 542.0 | 208.7 | 945.9 | 0.0 | 0.0 |
| 12. | Transmission System for Parbati – III Hydro Electric Project | 6,162.6 | 4,018.8 | 1,765.7 | 604.7 | 337.8 | 0.0 | 0.0 |
| 13. | Transmission system for Mouda Generation Project (2 x 500 MW) | 2,800.0 | 98.9 | 914.4 | 968.7 | 820.0 | 0.0 | 0.0 |
| | **Total** | **226,493.9** | **97,782.5** | **39,448.5** | **38,351.2** | **46,825.8** | **16,194.7** | **2,000.0** |

* *As certified by Ajay Agarwal & Co, Chartered Accountants by certificate dated October 15, 2010*

The total amount spent as on September 30, 2010, aggregating to ₹ 97,782.5 million has been funded through debt, equity infusion by GoI and internal accruals, except in the case of transmission system for Barh Generation Project, where in addition to funding through debt, equity infusion by GoI and internal accruals, certain proceeds from the initial public offering of our Company in Fiscal 2008 were utilised for part-financing the project. The debt component aggregates to ₹ 71,311.7 million comprising utilization of facilities to the extent of ₹ 38,815.7 million from World Bank and ₹ 32,496.0 million through issuance of domestic secured bonds. The remaining amount of ₹ 26,470.8 million has been funded through equity infusion of ₹ 400.0 million from the GoI and ₹ 17,968.4 million from our internal accruals. Additionally, with respect to the transmission system for Barh Generation Project, ₹ 8,102.4 million was funded from the proceeds of our initial public offering in Fiscal 2008.

**Contracts for the implementation of the Identified Projects**

Transmission projects are generally implemented by breaking down the project into "packages" depending on the size and the nature of the project. The major packages involved in the implementation of our projects include supply and erection contracts for construction of transmission lines and substations. In respect of the Identified Projects for which the Net Proceeds are intended to be used, as of the date of this Red Herring Prospectus, we have already awarded major contracts amounting to approximately ₹ 68,473.3 million. Some of the contracts for the projects which are yet to be awarded, will be awarded by us at an appropriate time during the course of the implementation of the projects.

All project implementation contracts usually contain, amongst others, price variation clauses subject to a specified limit, completion time guarantee clauses, defect liability clauses and indemnity clauses.

The contract costs mentioned below can escalate due to any of the reasons mentioned above or due to other circumstances. Any increase in the price of contracts, due to price variation provisions or due to change in design or force majeure situations or due to certain other circumstances is borne by our Company.

The details of the major contracts awarded by us with respect to the Identified Projects are as follows:

*(In ₹ million)*

| Name of Project/Scheme | Major Contractors | Value of Major Contracts Awarded |
|---|---|---|
| Western Region Strengthening Scheme – II | Consortium of Apar Industries Limited, Deepak Cables (India) Limited and Gupta Power Infrastructure Limited;<br>Sterlite Technologies Limited;<br>Consortium of Apar Industries Limited and Gupta Power Infrastructure Limited;<br>KEC International Limited;<br>Larsen & Toubro Limited;<br>IVRCL Infrastructure and Projects Limited | 7,395.0 |
| Strengthening of East-West Transmission Corridor | Sterlite Technologies Limited;<br>Consortium of Tata Projects Limited and Aster Teleservices Private Limited;<br>Consortium of Gupta Power Infrastructure Limited and Apar Industries Limited;<br>Consortium of Best & Crompton Engineering Projects Limited and ICOMM Tele Limited;<br>Areva T&D India Limited | 4,469.8 |
| Transmission System associated with Mundra Ultra Mega Power Project | Consortium of SPIC-SMO and BS Transcomm Limited;<br>Consortium of SPIC-SMO and Aster Teleservices Private Limited;<br>Tata Projects Limited;<br>KEC International Limited;<br>ABB Limited | 9,037.9 |
| Western Region Strengthening Scheme - IX | Bharat Heavy Electricals Limited;<br>ECI Engineering and Construction Company Limited;<br>C&C Constructions Limited | 1,549.4 |
| Transmission System associated with Sasan Ultra Mega Power Project | ICOMM Tele Limited;<br>Kalpataru Power Transmission Limited;<br>KEC International Limited;<br>Consortium of Larsen & Toubro Limited and Areva T&D India Limited;<br>Tata Projects Limited | 8,624.8 |
| Southern Region Strengthening Scheme – X | Hyosung Corporation;<br>Bharat Heavy Electricals Limited | 1,022.4 |
| Western Region Strengthening Scheme – X | Consortium of Hyosung Corporation and Larsen & Toubro Limited;<br>ABB Limited;<br>TBEA Shenyeng Transformer Group Company Limited | 3,411.8 |
| Northern Region Strengthening Scheme – XIII | IVRCL Infrastructure and Projects Limited; | 1,602.0 |

| Name of Project/Scheme | Major Contractors | Value of Major Contracts Awarded |
|---|---|---|
| | Siemens AG;<br>Consortium of Apar Industries Limited and Gupta Power Infrastructure Limited;<br>GET Power Private Limited | |
| Transmission System for Barh Generation Project | Consortium of Siemens AG and Bharat Heavy Electricals Limited;<br>Jyoti Structures Limited;<br>KEC International Limited;<br>Consortium of Kalpataru Power Transmission Limited and KEC International Limited;<br>Tata Projects Limited | 17,893.0 |
| System Strengthening in Northern Region for Sasan and Mundra Ultra Mega Power Projects | Consortium of Electrical Manufacturing Company Limited and ICOMM Tele Limited;<br>Consortium of SPIC-SMO and Sujana Towers Limited;<br>Crompton Greaves Limited;<br>Sterlite Technologies Limited | 5,977.8 |
| Transmission System associated with Korba – III Generation Project (500 MW) | Consortium of Smita Conductors Limited and Hindustan Vidyut Products Limited;<br>Kalpataru Power Transmission Limited;<br>Bharat Heavy Electricals Limited | 2,316.5 |
| Transmission System for Parbati – III Hydro Electric Project | Tata Projects Limited;<br>Larsen &Toubro Limited;<br>Bharat Heavy Electricals Limited;<br>Consortium of Deepak Cables (India) Limited and Sterlite Technologies Limited | 3,169.7 |
| Transmission system for Mouda Generation Project (2 x 500 MW) | Bajaj Electricals Limited;<br>Hind Aluminium Industries Limited;<br>Modern Insulators Limited | 2,003.4 |

**Details of Plant, Machinery, Technology and Process**

The Identified Projects are at varying stages of implementation, hence we have not yet awarded certain packages for the Identified Projects. We are in the process of finalizing the packages, post which we will award these contracts through a competitive bidding process. Further, the Identified Projects and our capacity expansion plans in general are also subject to a number of contingencies and uncertainties, many of which are beyond our control. As on September 30, 2010, our Company has placed orders for the procurement of 100% of the requisite plant, machinery and equipment for all the Identified Projects except with respect to the transmission system associated with Mundra Ultra Mega Power Project, wherein procurement orders of approximately 66% of the plant, equipment and machinery have been placed. We do not propose to use the Net Proceeds for purchase of second hand plant and machinery. Also, see "***Risk Factors***" on page xiv.

The major plant and machinery which are yet to be procured for implementation of Identified Projects are as follows:

| **A** | **Sub-station Equipments** | |
|---|---|---|
| 1. | Transformers | 765/400 KV (500/333 MVA single phase unit), 400/220 KV (315 MVA three phase unit) |

| | | |
|---|---|---|
| **A** | **Sub-station Equipments** | |
| 2. | Reactors | Line reactor 765 KV, (80/110 MVAR single phase unit), 400 KV Line and Bus Reactor (50 MVAR, 63 MVAR and 80MVAR and 125 MVAR three phase units) |
| 3. | Circuit Breaker | 765 KV with 40/50 KA short circuit capacity, 420 KV with 40/50/63 KA Short circuit capacity |
| 4. | Conductors | Moose, Zebra, Bull, Bersemis, etc |
| 5. | Tower materials | Galvanized tower materials of different sizes |
| 6. | Insulators | Polymer, glass and porcelain insulators of different rating |
| 7. | Series Capacitors | 400 KV |
| 8. | Hardware Fittings | Hardware fittings for sub-station equipments |
| 9. | PLCC and communication equipments, including wave traps | Communication equipments for protection and data |
| 10. | Control and Instrumentation | Control room, control panel, protection panels, cables etc |
| 11. | Civil and Structural Works | All civil and structural works of sub-station, building and control room including foundations, cable trenches, etc |
| 12. | Other Plant and Equipments | Air conditioning and ventilation, fire fighting equipments, LT switch gear, LT transformer, etc |
| 13. | Instrument Transformers | 765 KV and 40/50 KA, 400 KV and 40/50/63 KA |
| 14. | Surge Arrestors | 624 KV and 336 KV |
| 15. | Isolators | 765 KV and 40/50 KA, 400 KV and 40/50/63 KA |
| 16. | Gas Insulated Substation | 400/220 KV |
| **B** | **Transmission line Equipments** | |
| 1. | Conductors | ACSR/AAAC/AACSR, etc (Panther, Moose, Zebra, Lapwing) |
| 2. | Insulators | Polymer, glass and porcelain insulators of different rating |
| 3. | Tower Materials | Galvanized steel sections of different sizes |
| 4. | Hardware Fittings | Hardware fittings and accessories for conductor, insulator, etc |
| 5. | Civil and Structural Works | All civil and structural works of transmission lines, including foundations, tower erection, stringing, etc |
| **C** | **Load Despatch and Communication** | |
| 1. | SCADA system | |
| 2. | Communication terminal Equipments | Communication terminal equipments |
| 3. | Control and Instrumentation | Control room, control panel, etc |

## 2. *Fund expenditure for general corporate purposes*

We intend to use a part of the Net Proceeds, approximately ₹ [●] million, towards general corporate purposes including funding cost overruns of our projects (if any), strategic initiatives, acquisitions, joint ventures, funding new projects and meeting exigencies which we may face in the ordinary course. Our management, in accordance with the policies of the Board, will have the flexibility in utilizing the sum earmarked for general corporate purposes and any surplus amounts from the Net Proceeds.

### Schedule of Implementation and Deployment of Funds

Detailed below is the estimated schedule of deployment of the Net Proceeds in the current fiscal and the next four fiscals:

*(In ₹million)*

| S. No. | Object | Estimated Schedule of Deployment | | | | Total |
|---|---|---|---|---|---|---|
| | | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 | Fiscal 2014 | |
| 1. | Fund expenditure to meet the capital requirements for the | 9,906.8 | 12,064.1 | 14,049.0 | 1,980.1 | 38,000 |

| S. No. | Object | Estimated Schedule of Deployment | | | | Total |
|---|---|---|---|---|---|---|
| | | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 | Fiscal 2014 | |
| | implementation of the Identified Projects | | | | | |
| 2. | Fund expenditure for general corporate purposes* | [●] | [●] | [●] | [●] | [●] |
| | **Total*** | **[●]** | **[●]** | **[●]** | **[●]** | **[●]** |

** To be finalised at the time of filing the Prospectus*

**Issue Related Expenses**

The estimated Issue expenses are as under:

| S. No. | Activity Expense | Amount (In ₹ million) | Percentage of Total Estimated Issue Expenditure | Percentage of Issue Size |
|---|---|---|---|---|
| 1. | Fees, underwriting commission, brokerage and selling commission paid to the Book Running Lead Managers* | [●] | [●] | [●] |
| 2. | Fees payable to the SCSBs* | [●] | [●] | [●] |
| 3. | Fees of the Registrar to the Issue* | [●] | [●] | [●] |
| 4. | Fees of Advisors to the Issue* | [●] | [●] | [●] |
| 5. | Fees to the Bankers to the Issue* | [●] | [●] | [●] |
| 6. | Other expenses (Auditors' fees, listing fees, advertisement and marketing expenses, roadshow expenses, etc.)* | [●] | [●] | [●] |
| | **Total** | **[●]** | **[●]** | **[●]** |

**Will be incorporated after finalisation of the Issue Price.*

Other than listing fees in respect of the Equity Shares offered in the Fresh Issue, which will be borne by our Company, the above-mentioned Issue expenses will be borne by our Company and the Selling Shareholder, in proportion to the number of Equity Shares offered and sold by them in this Issue under the Fresh Issue and the Offer for Sale, respectively.

**Working Capital Requirement**

The Net Proceeds will not be used to meet our working capital requirements as we expect to have internal accruals, avail debt and/or draw down from our existing or new lines of credit to meet our working capital requirements.

**Interim Use of Funds**

The management of our Company, in accordance with the policies established by our Board from time to time, will have flexibility in deploying the Net Proceeds. Pending utilization for the purposes described above, we intend to invest the funds in high quality interest/dividend bearing liquid instruments including investments in mutual funds, deposits with banks and other investment grade interest bearing securities. Such investments would be in accordance with investment policies approved by our Board from time to time. We confirm that pending utilization of the Net Proceeds, we will not use the funds for any investments in the equity markets.

**Project Appraisals**

Out of the 13 Identified Projects, six projects are being partially funded by the World Bank. Prior to sanctioning funds for our projects, the World Bank typically undertakes an appraisal exercise of the sector and a basket of projects of our Company, which includes the six Identified Projects. Additionally, some of our Identified Projects have also been appraised by independent appraising entities.

The details of the appraisal for the Identified Projects are as follows:

Three of our Identified Projects, i.e., the Transmission System for Barh Generation Project, the Western Region Strengthening Scheme – II and the Strengthening of East-West Transmission Corridor, have been appraised on a collective basis by the World Bank, as set out in the Project Appraisal Document dated December 15, 2005, the Project Appraisal Document dated February 8, 2008 and the Project Paper dated September 9, 2008, prepared for the use of the lender on the basis of information and documents provided by our Company.

The key assumptions on which the Project Appraisal Document dated December 15, 2005 was based are as under:

- Operating revenues taken from audited accounts till 2004-05, and for subsequent years calculated based on commissioning schedule of schemes.
- System availability of 98.5% is assumed for calculating incentive.
- Return on equity taken as 14%, in accordance with the then prevailing tariff regulations.
- Other income includes consultancy income, reimbursement of RLDC expenditure, lease income from state sector Unified Load Despatch Centre ("**ULDC**") assets and interest income from SEB bonds.
- Income from transmission joint venture is calculated based on a 10% dividend on equity investment, with the Company holding 49% in Tala joint venture, and 26% in all subsequent joint ventures.
- An increase of 20% in employees remuneration during the year 2007-08 is considered on account of the usual five-yearly wage revision.
- Transmission and administrative expenses are projected to escalate at the same rate as the transmission charges (excluding advance against depreciation).
- A dividend of 30% on profit after tax is considered from 2005-06 onwards.
- Income tax is considered at 7.5%, with a surcharge of 2.5% and cess of 2%.
- For future schemes, where loans are not contracted, the financing norms adopted are debt-equity ratio of 70:30, with loans from different sources in the ratio of multilateral agencies (20%), external commercial borrowings (10%) and domestic loans (70%).
- Redemption of bonds under the securitization scheme is considered at 10% per year from 2006-07 onwards.
- Revenue realization is considered at 95% of billing, with the balance assumed to be realized after two years.

The key assumptions on which the Project Appraisal Document dated February 8, 2008 was based are as under:

- Operating revenues taken from audited accounts till 2006-07, and for subsequent years calculated based on commissioning schedule of schemes.
- System availability of 98.5% is assumed for calculating incentive.
- Return on equity taken as 14%, in accordance with the then prevailing tariff regulations.
- Other income includes consultancy income, income from short term open access, lease income from state sector ULDC assets and interest income from SEB bonds.

- Income from transmission joint venture is calculated based on a 10% dividend on equity investment, with the Company holding 49% in Tala joint venture, and 26% in all subsequent joint ventures.
- An increase of 20% in employees remuneration during the year 2007-08 is considered on account of the usual five-yearly wage revision.
- Transmission expenses are projected to escalate at the same rate as the transmission charges (excluding advance against depreciation).
- A dividend of 30% on profit after tax is considered from 2007-08 onwards.
- Income tax is considered at 10%, with a surcharge of 10% and cess of 2%.
- For future schemes, where loans are not contracted, the financing norms adopted are debt-equity ratio of 70:30, with loans from different sources in the ratio of multilateral agencies (20%), external commercial borrowings (10%) and domestic loans (70%).
- Redemption of bonds under the securitization scheme is considered at 10% per year from 2006-07 onwards.
- Based on the realization performance of previous years, 100% revenue realization has been assumed.

Three of our Identified Projects, i.e., the Transmission System associated with Mundra Ultra Mega Power Project, the Transmission System associated with Sasan Ultra Mega Power Project and the System Strengthening in Northern Region for Sasan and Mundra Ultra Mega Power Projects, have been appraised on a collective basis by the World Bank, as set out in the Project Appraisal Document dated August 25, 2009, prepared for the use of the lender on the basis of information and documents provided by our Company.

The key assumptions on which the Project Appraisal Document dated August 25, 2009 was based are as under:

- Operating revenues taken from audited accounts till 2007-08, and for subsequent years calculated based on commissioning schedule of schemes.
- Return on equity taken as 15.5%, in accordance with the then prevailing tariff regulations.
- Other income includes consultancy income, income from short term open access, lease income from state sector ULDC assets and interest income from SEB bonds.
- Income from transmission joint venture is calculated based on a 10% dividend on equity investment, with the Company holding 49% in Tala joint venture, and 26% in all subsequent joint ventures.
- An increase of 13% in employees remuneration during the year 2008-09 is considered on account of the usual ten-yearly wage revision.
- Transmission expenses are projected to escalate at the same rate as the transmission charges.
- A dividend of 30% on profit after tax is considered from 2008-09 onwards.
- Income tax is considered at 10%, with a surcharge of 10% and cess of 3%.
- For future schemes, where loans are not contracted, the financing norms adopted are debt-equity ratio of 70:30, with loans from different sources in the ratio of multilateral agencies and external commercial borrowings (20%) and domestic loans (80%).
- Based on the realization performance of previous years, 100% revenue realization has been assumed.

The Western Region Strengthening Scheme – II has also been appraised by IFCI Limited, as set out in the project appraisal report dated October 2009, prepared on the basis of information and documents provided by our Company.

The key assumptions on which the project appraisal report dated October 2009 was based are as under:

- The long term loan has been assumed to be financed at the interest rate of 10.5% per annum. The commercial loan has been assumed to be repaid in equal quarterly installments in the period of 10 years from the second year of the operations period (wherein a moratorium period of two months is availed as the commencement of operations takes place from the last quarter of the first year of operation period) and onwards for principal repayment.
- For the purpose of tariff, the maximum depreciable portion of 90% has been considered for the asset block. The depreciation is calculated annually based on straight line method over the useful life of the asset. The rates considered for the project have been charged as transmission line (2.7%), sub-station (3.6%), building (1.8%) and PLCC (6.0%).
- Since transmission licensee is entitled to advance against depreciation, it has been computed provided the cumulative repayment of any year exceeds the cumulative depreciation up to that respective year and future that advance against depreciation is restricted only to the extent of difference between cumulative repayment and cumulative depreciation up to that year. Hence, the advance against depreciation that is availed is set off after the loan repayment period.
- For the proposed project, return on equity is computed on equity base at 14.0% per annum.
- Operation and maintenance expenses has been computed according to the CERC norms for the year 2008-2009 and amount to 0.26 for the operation and maintenance expenses and 32.9 operations and maintenance. These costs are escalated by 4.0% for three years as the operation period is assumed to start from the year 2011-2012. Subsequently, the operation and maintenance expenses are escalated by 4.0% every year during the operation period.
- As per CERC guidelines, the working capital requirements that is included and considered for the project is two months of transmission charges for the receivables, one month for the operation and maintenance expenses and at the rate of 1.0% of the base cost estimate for the first year of commercial operations and subsequently escalated at the rate of 6.0% per annum during the project life. The interest on working capital is assumed at 11.0% per annum.
- As per CERC guidelines, tax is a pass-through component for the transmission licensee. Yet, to calculate the annual transmission charges the tax liability has been calculated on WDV method being 10.0% for plant and machinery and 15.0% for civil.
- For calculating the base cost of the project, the estimates have been taken as on third quarter 2008 price level. For the purpose of working out unit rates for 765/400 KV transmission line and substation works, the average rate of last three contracts awarded by the Company updated to third quarter 2008 price level has been considered.
- The completion cost of the project has been worked out based on the GoI guidelines dated August 6, 1997, which stipulated that the labour component of the project cost may be updated using the average (12 months) increase of Consumer Price Index for industrial workers and for all other components of cost, except labour, the average (12 months) increase of Wholesale Price Index for all commodities is used.
- For the first 10 years of operation, minimum alternate tax at the rate of 11.33% and subsequently corporate tax at the rate of 33.99% have been considered as per the provisions of Income Tax Act, 1961, which has been treated as a pass-through component for techno-economic purpose.
- Contingencies have been considered at 3% and maintenance during construction, engineering and administration and losses on stock have been considered at 5% of the works cost excluding cost of compensation towards forest for transmission lines.
- Centages and other contingencies have been considered at 8% of compensatory afforestation, which is ₹ 45,000 per hectare.
- Discount rate for levelised tariff as per CERC guidelines has been considered at 10.49%.

The System Strengthening in Northern Region for Sasan and Mundra Ultra Mega Power Projects has also been appraised by CRISIL Risk and Infrastructure Solutions Limited, as set out in the project appraisal report dated January 28, 2009, prepared on the basis of information and documents provided by our Company.

The key assumptions on which the project appraisal report dated January 28, 2009 was based are as under:

- The interest during construction has been calculated separately and added to the hard cost of the project. The completion cost of the project has been calculated based GoI guideline dated August 6, 1997 which states that the labour component of the project cost may be updated using the average 12 months increase in Consumer Price Index for industrial workers and for all other components of cost except labour, the average 12 months increase of Wholesale Price Index for all commodities is to be used. The labour component has been assumed as 20% of the total project cost and all other components of cost have been assumed as the balance 80%.
- Preliminary expenses incurred during Fiscal 2009 has been considered.
- The tariff for power to be transmitted using the proposed system strengthening project in Northern Region has been calculated based on the CERC guidelines for tariff setting. The tariff for supply of electricity comprise capacity charges. The capacity charges consist of following components: (a) return on equity; (b) interest on loan capital; (c) depreciation; (d) interest on working capital; and (e) operation and maintenance expenses. The post-tax return has been assumed at 15.5%. The pre-tax return on equity has been grossed up at tax rate applicable to the Company. The operations and maintenance cost for Fiscal 2013 and Fiscal 2014 has been taken as per CERC guidelines. The operations and maintenance cost from Fiscal 2015 onwards have been taken at the same rate as Fiscal 2014. The interest on term loan has been calculated on the normative basis for calculation of tariff. The repayment of loan for calculation of interest on normative basis for a year is deemed to be equal to the depreciation allowed for that year. The depreciation has been calculated annually based on straight line method at rates specified in CERC guidelines for first 12 years of the project. The remaining depreciable value after a period of 12 years from date of commercial operation has been spread over the balance life of the assets as stipulated in the CERC guidelines.
- The transmission project is assumed to be funded through a debt-equity mix in the ratio of 70:30. The debt will be funded through loan from World Bank. The moratorium period on the World Bank loan is for a period of five years. During the moratorium period, only the interest payments will be made to the lenders and there will be no repayment of principal. For repayment of debt, a period of 25 years has been assumed. The interest rate assumed for the World Bank loan is 7% per annum. Based on the inputs provided by the Company, 7% interest rate for the World Bank loan has been assumed on a notional basis. The notional interest rate includes guarantees and charges by the GoI and other charges incurred by Company for taking the loan. The World Bank loan has been negotiated by the Company in the month of August 2009 and the loan agreement has been signed on October 13, 2009.
- The actual operation and maintenance cost for the transmission lines and sub-station base for the project for Fiscal 2013 and Fiscal 2014 have been taken as per CERC guidelines. The actual operation and maintenance cost for Fiscal 2015 onwards have been taken at the same rate as Fiscal 2014.
- The working capital requirement has been calculated based on CERC guidelines. The capital requirement consists of components: (a) receivables; (b) maintenance spares; and (c) operation and maintenance. It has been assumed that 70% of the working capital requirement will be funded through debt. The interest rate for working capital loan has been considered at 10.5% per annum.
- Since the Company is paying minimum alternate tax, the income tax rate for the project has been considered at the applicable MAT rate. The MAT rate of 16.9% has been considered for the project.
- The depreciation has been calculated separately on the basis of Income Tax, 1961 and CERC guidelines. For the purpose of calculation of taxes, the depreciation has been considered on the basis of Income Tax Act, 1961. For the calculation of tariff of the project, the depreciation has been calculated on the basis of CERC guidelines. Though the depreciation for book

profits should preferably be ascertained on the basis of the Companies Act, the depreciation for book profits has also been calculated on the basis of CERC guidelines in line with the existing practice of the Company on inputs provided by the Company.

- The project is also exposed to exchange rate fluctuations on account of (a) payment of interest on the World Bank loan, and (b) repayment of loan taken from the World Bank. The depreciation of domestic currency compared to foreign currency during the project term can lead to higher cash outflow for interest on the World Bank loan and repayment of principal of the World Bank loan. However, since recovery of cost on account for foreign exchange variation can be directly made by the Company from the beneficiaries as per CERC guidelines, no impact on project returns is envisaged on account of foreign exchange fluctuations.

The appraisal reports of the World Bank, IFCI Limited and CRISIL Risk and Infrastructure Solutions Limited mention certain risks applicable to our Company and the mitigating factors in relation to these risks. For certain risks and weakness disclosed in the appraisal reports, see "***Risk Factors***" on page xiv.

Prior to attaining '*Navratna*' status in May 2008, projects involving an investment in excess of ₹ 5 billion were approved by the GoI. Consequent to our attaining the 'Navratna' status, our Board has the right to issue investment approvals for all our transmission projects without any requirement to obtain GoI approval.

Except as stated above, our fund requirements and deployment thereof are based on internal management estimates, and have not been appraised by any bank or financial institution. In case of any variations in the actual utilization of funds earmarked for the above activities, increased fund deployment for a particular activity may be met with by surplus funds, if any available in respect of the other activities. Any surplus left out of the Net Proceeds will be used for general corporate purposes.

**Monitoring Utilization of Funds**

In terms of Regulation 16 of the SEBI Regulations, we have appointed IFCI Limited as the monitoring agency to monitor the utilization of the Net Proceeds. Our Company, in accordance with the Equity Listing Agreement, undertakes to place the reports of the Monitoring Agency on receipt before the Audit Committee without any delay. Our Company will disclose the utilization of the Net Proceeds, including interim use under a separate head in its balance sheet for such fiscal periods as required under the SEBI Regulations, the Equity Listing Agreements with the Stock Exchanges and any other applicable laws or regulations, clearly specifying the purposes for which the Net Proceeds have been utilized. Our Company will also, in its balance sheet for the applicable fiscal periods, provide details, if any, in relation to all such Net Proceeds that have not been utilized, if any, of such currently unutilized Net Proceeds.

In accordance with clause 43A of the Equity Listing Agreement, our Company will furnish to the Stock Exchanges, on a quarterly basis, a statement including any material deviations in the utilization of the Net Proceeds for the Objects of the Issue stated above. This information will also be published in newspapers simultaneously with the interim or annual financial results, after placing them before the Audit Committee. In the event the Monitoring Agency points out any deviation in the use of the Net Proceeds from the Objects of the Issue stated above, or has expressed any other reservations on the end use of funds, our Company will intimate the same to the Stock Exchanges without delay. Further, on an annual basis, our Company will prepare a statement of funds utilized for purposes other than those stated in this Red Herring Prospectus and place it before the Audit Committee. The said disclosure will be made until the time the Net Proceeds have been fully spent. This statement will be certified by the statutory auditors of our Company.

There are no material existing or anticipated transactions in relation to the utilization of the Net Proceeds or estimated cost as above with the Promoter, the Directors, our Company's key management personnel, associate and Group Entities. No part of the Net Proceeds will be paid by us as consideration to our Promoter, our Directors or key managerial employees, except in the normal course of our business.

# BASIS FOR ISSUE PRICE

The face value of our Equity Shares is ₹ 10 and the Issue Price of ₹ [●] is [●] times the face value at the Floor Price and [●] times the face value at the Cap Price.

The Issue Price will be determined by our Company and the Selling Shareholder in consultation with the BRLMs, on the basis of assessment of market demand from the Bidders for the offered Equity Shares by way of the Book Building Process, and on the basis of the following qualitative and quantitative factors. Bidders should also see "***Risk Factors***" and "***Financial Statements***" on pages xiv and 184, respectively. The financial data presented in this section are based on the Company's audited unconsolidated financial statements.

**Qualitative Factors**

- Leadership position in Indian power transmission sector;
- High operational efficiencies;
- Effective project implementation;
- Attractive tariffs, competitive landscape and business model;
- Diversified business portfolio;
- Strong financial position and cash flow from operations;
- Government support; and
- Skilled and experienced senior management team and competent and committed workforce.

For further details which form the basis for computing the price, see "***Our Business***" and "***Risk Factors***" on pages 82 and xiv, respectively.

**Quantitative Factors**

The information presentation below relating to the Company is based on audited unconsolidated financial statements for Fiscals 2009 and 2010 and unconsolidated limited reviewed financial statements for the six months ended September 30, 2010, prepared in accordance with Indian GAAP. For more information, see "***Financial Statements***" page 184.

**1. EARNING PER SHARE ("EPS"):**

As per our audited unconsolidated financial statements:

| Fiscal | Basic & Diluted EPS (in ₹) | Weight |
|---|---|---|
| **2009** | 4.02 | 1 |
| **2010** | 4.85 | 2 |
| **Weighted Average** | 4.57 | |

As per our unconsolidated limited reviewed financial statements for the six months ended September 30, 2010, the basic and diluted EPS was ₹ 3.22.

*Notes:*
*a) Basic EPS has been computed by dividing profit/(loss) after tax and before extraordinary items, by the number of Equity Shares outstanding during the period/year.*
*b) Diluted EPS has been computed by dividing profit/(loss) after tax and before extraordinary items, by the number of diluted Equity Shares outstanding during the period/year.*
*c) EPS calculations have been done in accordance with Accounting Standard 20-"Earning per share" issued by the Institute of Chartered Accountants of India.*

## 2. PRICE EARNING RATIO ("P/E RATIO"):

P/E Ratio in relation to Issue Price of ₹ [●] per Equity Share of face value of ₹ 10 each:

a) As per our audited unconsolidated financial statements for Fiscal 2010: [●]
b) As per our Weighted Average EPS: [●]
c) Industry P/E – There are no listed companies in India which are in the business of power transmission.

## 3. AVERAGE RETURN ON NET WORTH ("RoNW"):

RoNW as per audited unconsolidated financial statements

| Fiscal | RoNW (%) | Weight |
|---|---|---|
| **2009** | 11.57 | 1 |
| **2010** | 12.83 | 2 |
| **Weighted Average** | 12.41 | |

As per our unconsolidated limited reviewed financial statements for the six months ended September 30, 2010, the RoNW was 7.86%.

*Note:*
*RoNW has been computed by dividing net profit/(loss) after tax by the net worth.*

## 4. Minimum Return on Total Net Worth after Issue needed to maintain Pre-Issue EPS for the year ended March 31, 2010:

a. At the lower end of the Price Band: [●]%
b. At the higher end of the Price Band: [●]%
c. At the Issue Price: [●]%

## 5. NET ASSET VALUE ("NAV") PER EQUITY SHARE:

a. As of March 31, 2010 (unconsolidated) : ₹ 37.81
b. As of September 30, 2010 (unconsolidated) : ₹ 40.96
c. Issue Price : ₹ [●]*
d. As of September 30, 2010 (unconsolidated) after the Issue: ₹ [●]

** Since the Issue is being made through the Book Building Process, the Issue Price will be determined on the basis of market demand from the Bidders for the offered Equity Shares, on conclusion of the Book Building Process.*

*Note:*
*NAV per Equity Share has been computed by dividing net worth after by number of Equity Shares outstanding at the end of the period.*

Bidders should note that pursuant to letter dated July 27, 2010 from the Selling Shareholder, discount of ₹ [●] to the Issue Price is being offered to Retail Bidders and Eligible Employees, respectively.

## 6. COMPARISON WITH OTHER LISTED COMPANIES

We believe none of the listed companies in India are in the business of power transmission. Hence, comparative data for the peer group/industry is not available.

The Issue Price of ₹ [●] has been determined by our Company and the Selling Shareholder, in consultation with the BRLMs, on the basis of assessment of market demand from the Bidders for the offered Equity Shares by way of the Book Building Process, and is justified based on the above quantitative and qualitative factors. Bidders should also see "***Risk Factors***" and "***Financial Statements***", including important profitability and return ratios, on pages xiv and 184, respectively, to have a more informed view. The trading price of the Equity Shares of the Company could decline due to the factors mentioned in "***Risk Factors***" on page xiv, and you may lose all or part of your investments.

# STATEMENT OF GENERAL TAX BENEFITS

Power Grid Corporation of India Limited,
B-9, Qutab Institutional Area,
Katwaria Sarai, New Delhi 110016

Dear Sirs,

We hereby report that the enclosed annexure states "General Tax Benefits" available to Power Grid Corporation of India Limited (the "**Company**") and its shareholders under the current tax laws in force in India as amended by the Finance Act, 2010. The benefits as stated are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence the ability of the Company or its shareholders to derive the tax benefits is dependent upon fulfilling such conditions.

The benefits discussed in the enclosed annexure are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional advice. In view of the individual nature of the tax consequences, the changing tax laws and the fact that the Company will not distinguish between the shares offered for subscription and the shares offered for sale by the selling shareholders, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.

| | | |
|---|---|---|
| **For A.R. & Co.** | **For S R I Associates** | **For Umamaheswara Rao & Co.** |
| Chartered Accountants | Chartered Accountants | Chartered Accountants |
| Regn No.002744C | Regn No.305109E | Regn No. 004453S |
| **( Pawan K. Goel )** | **( I. Pasha )** | **( Venugopal Sanka )** |
| **Partner** | **Partner** | **Partner** |
| Membership No. 072209 | Membership No. 013280 | Membership No. 205565 |

Place: Mumbai.

Date: 20.10.2010.

**Annexure to Statement of "General Tax Benefits" available to Power Grid Corporation Of India Limited and its shareholders**

**A. To the Company**

**1. Under the Income Tax Act, 1961**

- Energy saving devices being Electrical equipments such as Shunt capacitors, automatic power cut off devices, automatic voltage controller, power factor controller for AC, series compensation equipments, equipment to establish transmission highways for National Power Grid, etc are entitled for higher depreciation at the rate of 80% on W.D.V. as per Appendix I of Income Tax Rules under Section 32 of the Income Tax Act., 1961.
- In accordance with and subject to the condition specified in Section 80-IA of' the Income Tax Act, 1961, the Company would be entitled to deduction of 100% of profits derived from Industrial Undertaking engaged in generation and/or distribution or transmission of power for any ten consecutive assessment years out of fifteen years beginning from the year in which the undertaking generated power or commences transmission or distribution of power before 31.03.2011 subject to the limit prescribed under section 80IA(2).
- In accordance with and subject to the provisions of Section 35, the Company would be entitled to deduction in respect of expenditure laid out or expended on scientific research related to the business.
- By virtue of Section 10(34) of the IT Act, income earned by way of dividend income from another domestic company referred to in Section 115-O of the IT Act, is exempt from tax in the hands of the Company subject to provisions of Section 14A read with Rule 8D.
- While calculating dividend distribution tax as per provision of section 115-O, the reduction shall be allowed in respect of the dividend received by a domestic company from a subsidiary company during the financial year provided the subsidiary company has paid tax on such dividend and the domestic company, is not a subsidiary of any other company. It is further provided that same amount of dividend shall not be taken into the reduction more than once. For this purpose a company shall be subsidiary of another company, if such other company holds more than half in nominal value of the equity share capital of another company.
- By virtue of Section 10(15)(i), interest income earned from 8.5% SLR Power Bonds and long term loans are exempt from tax in the hands of the company, subject to provisions of Section 14A read with Rule 8D.
- The Corporate Tax rate of the company is grossed up on return on equity and billed to beneficiaries in accordance with Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009.

**2. Under Central Sales Tax Act, 1956**

- Tax on inter state sales leviable under Section 6(1) of the Central *Sales* Tax Act, 1956 is not applicable on transmission of electrical energy.
- In terms of section 8(3)(b) of the Central Sales Tax Act, 1956, the purchases made in the course of inter-state trade or commerce for use in the generation or distribution or any other form of power is eligible for concessional rate of sales tax of 2%.

**3. Under Customs Tariff**

- In terms of notification No. 21/2002-Cus dated 1.3.2002 as amended by last Notification No. 80/2010-Cus. Dated 10.8.2010 under Customs Tariff of India, the goods as per List 44 required for setting up of any Transmission Project, are eligible to import at the rate of 5%

basic custom duty subject to fulfillment of certain conditions.

- In terms of notification No. 21/2002-Cus., dated 1.3.2002 as amended by last Notification No. 80/2010-Cus. Dated 10.8.2010 under Customs Tariff of India, the Power Transmission Companies are eligible to import goods required for setting up of any power transmission projects at concessional rate of 5% basic custom duty under Project Imports.
- In terms of notification No. 84/1997 dtd 11.11.1997 the goods imported under World Bank/ADB funded projects are eligible for nil customs duty.

**4. Under EXIM Policy**

- Supply of goods to projects funded by World Bank/ADB is entitled to deemed export benefits as available under Chapter 8 of Export & Import Policy.

**B. To the Members of the Company**

**B1. Under the Income Tax Act, 1961**

**1. All Members**

- By virtue of Section 10(34) of the IT Act, income earned by way of dividend income from a domestic company referred to in Section 115-O of the IT Act, is exempt from tax in the hands of the shareholders, subject to provisions of Section 14A read with Rule 8D.
- By virtue of Section 10(38) of' the Income Tax Act, 1961, income arising from transfer of a long-term capital asset, being an equity share in the Company is exempt from tax, if the transaction of such sale has been entered into on or after the date on which Chapter VII of the Finance (No.2) Act, 2004 comes into force and such transaction is chargeable to the Securities Transaction Tax under that Chapter. However, the long-term capital gain of a share holder being a company shall be subject to income tax computed on book profit under section 115JB of' the Income Tax Act, 1961.
- By virtue of Section 111A inserted by Finance (No.2) Act, 2004, short term capital gain on transfer of equity share of the Company shall be chargeable to tax @ 15%, if the transaction of such sale has been entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and such transaction is chargeable to Securities Transaction Tax under that Chapter.
- By virtue of Section 88E of the Income Tax Act, 1961 and subject to certain conditions, rebate of tax paid on securities transaction is allowable as deduction from the amount of income tax.

**2. Resident Members**

- In terms of section 10(23D) of the Income Tax Acy, 1961, all mutual funds set up by public sector banks or public financial institutions or mutual funds registered under the Securities and Exchange Board of India or authorized by Reserve Bank of India subject to the conditions specified therein are eligible for exemption from income tax on their entire income, including income from investment in the shares of the Company, subject to provisions of section 14A and rules framed there under, wherever applicable.
- By virtue of Section 10(34) of the IT Act, income earned by way of dividend income from a domestic company referred to in Section 115-O of the IT Act, is exempt from tax in the hands

of the shareholders, subject to provisions of Section 14A read with Rule 8D.

- Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gains are invested upto Rs. 50 lakhs within a period of 6 months from the date of transfer in the bonds issued by

  * National Highways Authority of India constituted under section 3 of National Highways Authority of India Act, 1988;
  * Rural Electrification Corporation Limited, a Company formed and registered under the Companies Act, 1956;

  If only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

- Under Section 54F of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the Company will be exempt from capital gain tax, if the net consideration from such shares are used for purchase of residential house property within a period of one year before or two years after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.

  If any part of the capital gain is reinvested, the exemption will be reduced proportionately. The amount so exempted shall be chargeable to tax subsequently, if residential property is transferred within a period of three years from the date of purchase/construction. Similarly, if the shareholder purchases within a period of two years or constructs within a period of three years after the date of transfer of capital asset, another residential house, the original exemption will be taxed as capital gains in the year in which the additional residential house is purchased or constructed.

- Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the Act, long term capital gains (in cases not covered under section 10(38) of the Act) arising on transfer of shares in the Company, if shares are held for a period exceeding 12 months shall be taxed at a rate of 20% (plus applicable surcharge and education cess) after indexation as provided in the second proviso to Section 48 or at 10% (plus applicable surcharge and education cess) (without indexation), at the option of the Shareholders.

**3. Non Resident Indians/Members (other than FIIs and Foreign Venture Capital Investors)**

- By virtue of Section 10(34) of the IT Act, income earned by way of dividend income from another domestic company referred to in Section 115-O of the IT Act, is exempt from tax in the hands of the recipients subject to provisions of Section 14A read with Rule 8D.

**Tax on Investment Income and Long Term Capital Gain**

- A non resident Indian (i.e. an individual being a citizen of India or person of Indian Origin) has an option to be governed by the provisions of Chapter XII-A of the Income Tax Act, 1961 viz. "Special Provisions Relating to Incomes of Non-Residents".
- Under Section 115E of the Income Tax Act, 1961, where shares in the Company are subscribed for in convertible Foreign Exchange by a Non Resident Indian, capital gains arising to the non resident on transfer of shares held for period exceeding 12 months shall (in cases not covered under section 10(38) of the Act) be concessionally taxed at the flat rate of

10% (plus applicable surcharge and education cess) without indexation benefit but with protection against foreign exchange fluctuation.

- As per section 90(2) of the Act, the provision of the Act would prevail over the provision of the tax treaty to the extent they are more beneficial to the Non Resident. Thus, a non-resident can opt to be governed by the beneficial provisions of an applicable tax treaty.

Capital gain on transfer of Foreign Exchange Assets, not to be charged in certain cases

- Under provisions of Section 115F of the Income Tax Act, 1961, long term capital gains (in cases not covered under section 10(38) of the Act) arising to a non resident Indian from the transfer of-shares of the Company subscribed to in convertible Foreign Exchange shall be exempt from Income Tax if the net consideration is reinvested in specified assets within six months of the date of transfer. If only part of the net consideration is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

Return of Income not to be filed in certain cases

- Under provisions of Section 115G of the Income Tax Act, 1961, it shall not be necessary for a Non-Resident Indian to furnish his return of Income if his only source of income is investment income or long term capital gains or both arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible has been deducted at source there from.

Other Provisions

- Under Section 115-I of the Income Tax Act, 1961, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any Assessment Year by furnishing his Return of Income under Section 139 of the Income Tax Act declaring therein that the provisions of the Chapter shall not apply to him for that assessment year and if he does so, the provisions of this Chapter shall not apply to him instead the other provisions of the Act shall apply.
- Under the first proviso to Section 48 of the Income Tax Act, 1961, in case of a non-resident, in computing the capital gains arising from transfer of shares of the Company acquired in convertible foreign exchange (as per exchange control regulations) protection is provided from fluctuations in the value of rupee in terms of foreign currency in which the original investment was made. Cost indexation benefits will not be available in such a case.
- Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gains are invested upto Rs. 50 lakhs within a period of 6 months from the date of transfer in the bonds issued by

  * National Highways Authority of India constituted under section 3 of National Highways Authority of India *Act,* 1988;

  * Rural Electrification Corporation Limited, a Company formed and registered under the Companies Act, 1956;

  If only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

- Under Section 54F of the Income Tax Act. 1961 and subject to the condition and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the Company will be exempt from Capital gains tax subject to other conditions, if the net consideration from such shares are used for purchase of residential house property within a period of one year before and two year after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.

If any part of the capital gain is reinvested the exemption will be reduced proportionately. The amount so exempted shall be chargeable to tax subsequently, if residential property is transferred within a period of three years from the date of purchase/construction. Similarly, if the shareholder purchases within a period of two years or constructs within a period of three years after the date of transfer of capital asset, another residential house, the original exemption will be taxed as capital gains in the year in which the additional residential house is purchased or constructed.

- Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the Act, long term capital gains arising on transfer of shares in the Company, if shares are held for a period exceeding 12 months shall be taxed at a rate of 20% (plus applicable surcharge and Education Cess) after indexation as provided in the second proviso to Section 48; indexation not available if investments made in foreign currency as per the first proviso to section 48 stated above) or at 10% (plus applicable surcharge and Education Cess) (without indexation), at the option of assessee.

**4. Mutual Funds**

In terms of Section 10(23D) of the Income Tax Act, 1961, mutual funds registered under the Securities and Exchange Board of India Act 1992 and such other mutual funds set up by public sector banks or public financial institutions authorized by the Reserve Bank of India and subject to the conditions specified therein, are eligible for exemption from income tax on their entire income, including income from investment in the shares of the Company.

**5. Foreign Institutional Investors (FIIs)**

- By virtue of Section 10(34) of the IT Act, income earned by way of dividend from another domestic company referred to in Section 115-O of the IT Act, is exempt from tax in the hands of the institutional investor.
- The income by way of short term or long term capital gains realized by FIIs on sale of shares in the Company would be taxed at the following rates as per Section 115AD of the Income Tax Act, 1961.

  * Short term capital gains - 30% (plus applicable surcharge and Education Cess)
  * Short term capital gains covered U/s 111A- 15% (plus applicable surcharge and Education Cess)
  * Long term capital gains - 10% (without cost indexation) plus applicable surcharge and Education Cess and 20% (with indexation) plus applicable surcharge and Education Cess.

  (Shares held in a company would be considered as a long term capital asset provided they are held for a period exceeding 12 months).
- Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gains are invested within a

period of 6 months after the date of such transfer for a period of 3 years in the bonds issued by

* National Highways Authority of India constituted under section 3 of National Highways Authority of India *Act,* 1988;
* Rural Electrification Corporation Limited, registered under the Companies Act, 1956;

If only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

- As per section 90(2) of the Act, the provision of the Act would prevail over the provision of the tax treaty to the extent they are more beneficial to the Non Resident. Thus, a non-resident can opt to be governed by the beneficial provisions of an applicable tax treaty.

**6. Venture Capital Companies *I* Funds**

In terms of Section 10 (23FB) of the Income Tax Act, 1961, all Venture Capital Companies *I* Funds set up to raise funds for investment and registered with Securities and Exchange Board of India, subject to the conditions specified, are eligible for exemption from income tax on all their income, including income from dividend.

**B2. Under the Wealth Tax Act, 1957**

Shares of the Company held by the shareholder will not be treated as an asset within the meaning of Section 2 (ea) of Wealth Tax Act, 1957, hence Wealth Tax Act will not be applicable.

**B3. Under the Gift Tax Act, 1957**

Gift of shares of the Company made on or after October 1, 1998 are not liable to Gift Tax

**Notes**

All the above benefits are as per the current tax law as amended by the Finance Act, 2010 and will be available only to the sole/ first named holder in case the shares are held by joint holders

In respect of non residents, taxability of capital gains mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non-resident has fiscal domicile.

In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor, with respect to specific tax consequences of his/her participation in the issue.

The above statement of possible direct and indirect taxes benefits sets out the provisions of law in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of equity shares.

## SECTION IV- ABOUT US

## INDUSTRY OVERVIEW

*The information in this section has been obtained or derived from publicly available documents prepared by various sources, including officially prepared materials from the Government of India and its various ministries and from various multilateral institutions. This information has not been prepared or independently verified by us or any of our advisors including the BRLMS, and should not be relied on as if it had been so prepared or verified. Unless otherwise indicated, the data presented exclude captive generation capacity and generation.*

### OVERVIEW OF THE INDIAN ECONOMY

India, the world's largest democracy with an estimated population of 1.157 billion, had a GDP on a purchasing power parity basis of an estimated US$3.57 trillion in 2009, according to the CIA Factbook. This made the Indian economy the fifth largest in the world after the European Union, United States, China and Japan.

According to the CIA Factbook, India's economy was the second fastest growing major economy in the world after China in CY2009. According to the RBI's Macroeconomic and Monetary Developments First Quarter Review 2010-11 dated July 26, 2010, the Indian economy exhibited robust acceleration in the pace of recovery in the fourth quarter of FY2010 led by strong growth in industrial activities. At 8.6%, GDP growth in the fourth quarter of FY2010 showed a significant recovery in relation to the 5.8% growth recorded during the second half of FY2009. The RBI expects overall GDP growth in FY2011 to accelerate further.

The Indian economy has weathered the global downturn relatively well. The OECD, in its Economic Outlook No. 87 released in May 2010, projects that India's real GDP will grow at a rate of 8.3% in CY2010 and 8.5% in CY2011 due to recent high frequency indicators of activity and business sentiment and an expected rebound in agricultural activity following the deficient monsoonal rainfall in CY2009.

Although the Indian economy has improved markedly since the implementation of economic reforms in 1991, India continues to underperform in the development of its infrastructure. According to the GoI's Projections of Investment in Infrastructure during the Eleventh Five Year Plan released in October 2007 lack of infrastructure is one of the major constraints on India's ability to achieve 9.0% to 10.0% growth in GDP.

The power sector has been recognized by the GoI as a key infrastructure sector to sustain the growth of the Indian economy. As per the Projections of Investment in Infrastructure during the Eleventh Plan released in August, 2008, investment in the electricity sector is projected at ₹ 6,665 billion (approximately US$166.63 billion) at FY2007 prices, or approximately 32.42% of the total projected investment in infrastructure during the Eleventh Plan.

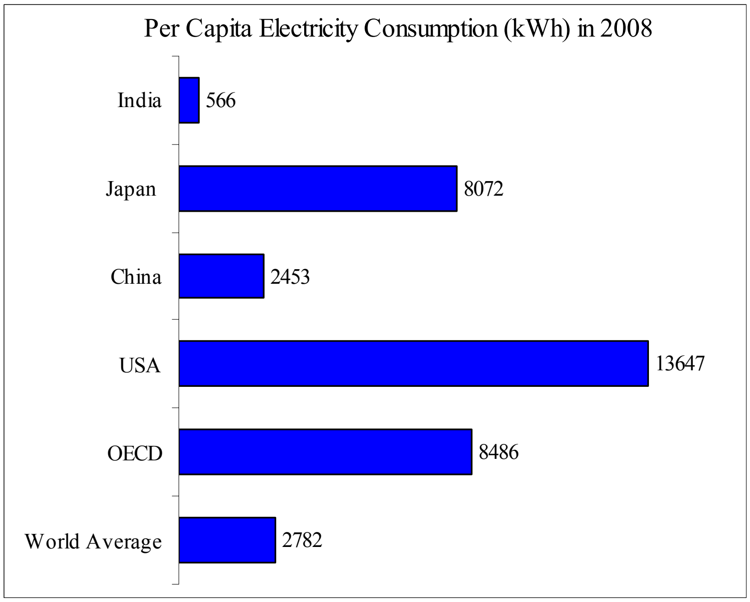
### OVERVIEW OF THE INDIAN POWER SECTOR

India is both a major energy producer and consumer. According to the CIA Factbook, India ranked as the world's fifth largest energy producing nation in 2009 behind the United States, China, Russia and Japan with estimated total production of 723.8 billion kWh. It is also the world's fifth largest energy consuming nation, with estimated total consumption of 568 billion kWh in 2007.

Demand for electric power transmission services is largely dependent on levels of demand for electric power, and on the ability of the electric power generation and distribution sectors to service that demand. The GoI has developed a national electricity policy, which aims at accelerating the development of the power sector through the generation of additional power, in order to provide for establishment of infrastructure to increase the amount of power generated. This policy is being promoted by the Ministry of Power as "Mission 2012: Power for All".

**Demand for Electricity in India**

Per capita consumption of power in India remains relatively low compared to other major economies as set forth below:




*Source*: *IEA, Key World Energy Statistics, 2010*

The low per capita consumption of electricity in India compared to the world average presents significant potential for sustainable growth in the demand for electric power in India. The projected energy demand in India is as set forth below:

| Year | Electricity Energy Requirements at Power Station Bus Bars (GWh) | Annual Peak Electric Loan at Power Station Bus Bars (MW) |
|---|---|---|
| 2011-2012 | 968,959 | 152,746 |
| 2016-2017 | 1,392,066 | 218,209 |
| 2021-2022 | 1,914,508 | 298,253 |

*Source: CEA, Notes to 17th Electric Power Survey of India, May 2007*

**Supply of Electricity in India**

Since the 1980's, India has been facing an imbalance with respect to its energy requirements. The demand for energy, particularly commercial energy, has been growing rapidly in India along with the growth of the economy, changes in the demographic structure, rising urbanization, socio-economic development and the desire for attaining and sustaining self-reliance in some sectors of the economy. Industrial production alone grew at a rate of 8.20% in CY2009 according to the CIA Factbook.

India faces significant challenges in meeting its energy needs in a sustainable manner and at competitive prices. Primary energy requirements grew at an average annual growth rate of 3.67%

between FY91 and FY07, with the primary commercial energy requirement growing at an average annual growth rate of 4.93% during the same period. (Planning Commission, Government of India, Eleventh Five Year Plan).

According to provisional figures in the Central Electricity Authority's ("**CEA**") Monthly Review of the Power Sector for August, 2010, the monthly national power supply deficit was at 7.5%, with the monthly national peak power deficit at 10.7%. The chart below sets out the actual power supply position from FY2003-FY2010:

| Period | Peak Demand (MW) | Peak Met (MW) | Peak Deficit/ Surplus (MW) | Peak Deficit/ Surplus (%) |
|---|---|---|---|---|
| FY2003 | 81,492 | 71,547 | -9,945 | -12.2 |
| FY2004 | 84,574 | 75,066 | -9,508 | -11.2 |
| FY2005 | 87,906 | 77,652 | -10,254 | -11.7 |
| FY2006 | 93,255 | 81,792 | -11,463 | -12.3 |
| FY2007 | 100,715 | 86,818 | -13,897 | -13.8 |
| FY2008 | 108,866 | 90,793 | -18,073 | -16.6 |
| FY2009 | 109,809 | 96,885 | -13,124 | -12.0 |
| FY2010 | 118,472 | 102,725 | -15,748 | -13.3 |

*Source: CEA, Power Scenario at a Glance, April 2010*

To deliver a sustained economic growth rate of 8.0% through 2031-2032 and to meet the "lifeline energy" needs of all its citizens, India needs, at the least, to increase its primary energy supply by 3 to 4 times and its electricity generation capacity by 5 to 6 times based on FY2004 levels. With FY2004 as a baseline, India's commercial energy supply would need to grow from 5.2% to 6.1% per annum while its total primary energy supply would need to grow at 4.3% to 5.1% annually. By FY2032, power generation capacity must increase to around 800,000 MW from FY2004 capacity of around 160,000 MW inclusive of all captive plants. (Planning Commission, Integrated Energy Policy Report of the Expert Committee, August 2006).

This represents a need for the substantial augmentation of power generation capacity. Such investment in power generation will require increased investment in power transmission and distribution if the additional power is to be effectively disseminated among potential customers.

The chart below sets forth India's total installed capacity as at September 30, 2010:

| Hydro (MW) | Thermal (MW) | Nuclear (MW) | Renewables (MW) | Total (MW) |
|---|---|---|---|---|
| 37,328.40 | 106,517.98 | 4560.00 | 16,429.42 | 164,835.80 |

*Source: CEA, Monthly Review of the Power Sector for September 2010*

***Power Generation Capacity Addition***

The GoI has adopted a system of successive Five Year Plans that set out targets for economic development in a number of sectors, including the power sector. Each successive Five Year Plan has had increased targets for the addition of power generation capacity. The Eleventh Plan calls for an increase of 15,627 MW of hydroelectric power, 59,693 MW of thermal power and 3,380 MW of nuclear power for a target of 78,700 MW during the period April 1, 2007 to March 31, 2012. (Ministry of Power, Annual Report 2009-2010).

The Ministry of Power determined that, as at January 31, 2010, capacity of 19,582 MW had been commissed during the Eleventh Plan and an additional generation capacity of 42,792 MW was likely to be commissioned with a high level of certainty for an anticipated total of 62,374 MW. Another

12,590 MW of projects could potentially be commissioned during the period. (Ministry of Power, Annual Report 2009-2010).

According to the Planning Commission's Projections in the Eleventh Five Year Plan for Investment in Infrastructure, planned total capacity additions will require total investment in the electricity sector of approximately ₹ 6,665 billion at FY2007 prices, which is equal to approximately 2.36 times the investment anticipated in the Tenth Plan in the electricity sector. The projections assume that central government investment in the Eleventh Plan will grow at a CAGR of 15.0% and states' investment at 38.0% in view of the thrust on augmenting distribution systems and rural electrification. Private investment is expected to grow at 24.0%.

A generation capacity addition of about 100,000 MW is envisaged for the Twelfth Five Year Plan during the period from April 1, 2012 to March 31, 2017. (CEA, Key Inputs for Accelerated Development of Indian Power Sector for 12th Plan & Beyond).

***Inter-regional Load Flow***

With the strengthening of inter-regional connections by 2012, the inter-regional capacity is expected to grow to 27,950 MW, according to the Planning Commission's Mid-Term Appraisal of the Eleventh Five Year Plan. This will facilitate transfer of power from surplus regions to deficit regions. The projected power exchange requirement load flows among various regions for Fiscal 2012 is as set forth below:

| | **Load Flows for Fiscal 2012 for peak demand and availability (surplus/deficit)** | | |
|---|---|---|---|
| **Region** | **Winter (MW)** | **Monsoon (MW)** | **Summer (MW)** |
| Northern | 7,870 | 1,220 | 2,600 |
| Western | 4,460 | 5,630 | 6,300 |
| Southern | 2,620 | 1,340 | 1,360 |
| Eastern | 12,510 | 1,700 | 6,420 |
| Northeastern | 2,440 | 4,050 | 3,840 |

| | **Load Flows for Fiscal 2012 for off-peak demand and availability (surplus/deficit)** | | |
|---|---|---|---|
| **Region** | **Winter (MW)** | **Monsoon (MW)** | **Summer (MW)** |
| Northern | 5,880 | - | 4,280 |
| Western | 340 | 2,090 | - |
| Southern | - | - | - |
| Eastern | 5,390 | 700 | 3,000 |
| Northeastern | 150 | 1,390 | 1,280 |

*Source: CEA, National Electricity Plan – Transmission (2005 Draft)*

***Ultra Mega Power Projects***

In order to meet the planned capacity addition for generation, the Government of India has turned to large capacity projects at the national level to meet the requirements of a number of states. Recognizing the fact that economies of scale leading to cheaper power can be secured through development of large size power projects using super critical technology that have the advantages of low consumption of coal and lower emissions, the Ministry of Power is developing nine Ultra Mega Power Projects ("**UMPPs**") in nine different states through tariff based competitive bidding. As at January 31, 2010 the Mundra, Sasan, Krishnapatnam and Tilaiya UMPP's have been transferred to successful bidders. The 9 UMPPs, each with the capacity of about 4,000 MW, would also have scope for further expansions. Several states have requested a second UMPP. (Ministry of Power, Annual Report 2009-2010).

### Transmission of Power in India

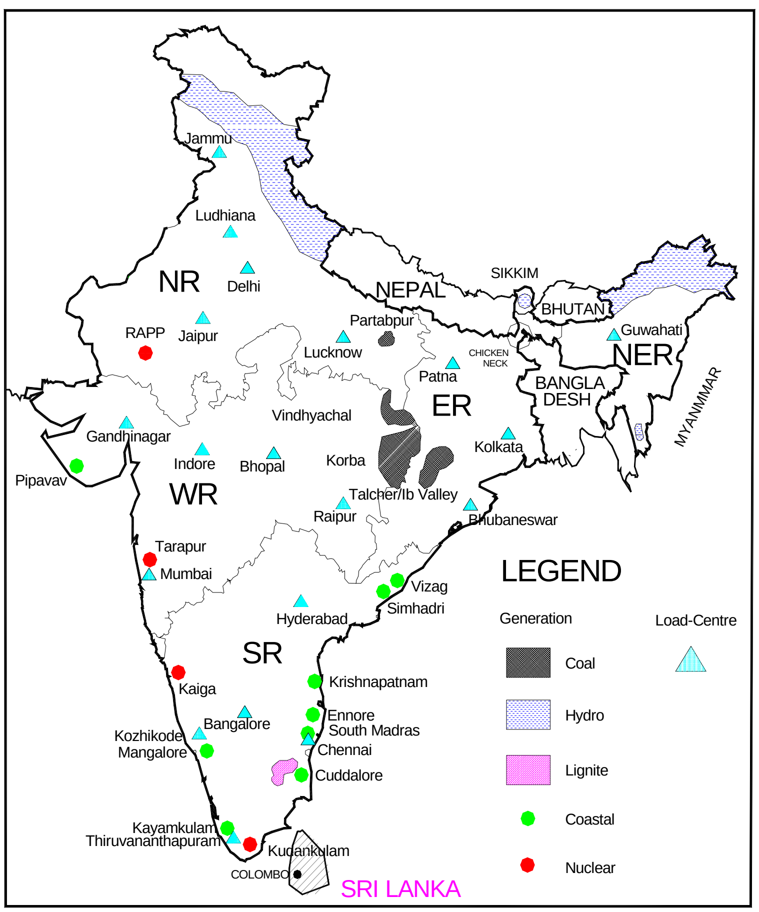
If the GoI intends to increase installed power generation capacity by 78,700 MW by 2012, it must also facilitate an expansion of the transmission network and inter-regional capacity to transmit power. Average investment in T&D in India during the Tenth Plan was about 32% of investment in generation. (Ministry of Power, Report on the Working Group on Power for Eleventh Plan (2007-2012)).

***Electric Power Transmission and Distribution***

The transmission of electricity is typically defined as the bulk transfer of power over a long distance at a high voltage, generally 132 KV and above. The distribution of electricity is the delivery of power from the transmission system to the customer. A reliable transmission and distribution system is important for the proper and efficient transfer of power from generating stations to load centers and beyond. A transmission and distribution ("**T&D**") system is typically comprised of transmission lines, sub-stations, switching stations, transformers and distribution lines.

Inter-regional transmission networks are required in India because power generation sources are unevenly distributed and power needs to be carried over large distances from areas where power is generated to areas where load centers and demand exist.

The following map illustrates the relation of power generation sources and load centers in India:




*Source: Company*

In order to ensure the reliable supply of power, efficient utilization of generating capacity and effective exploitation of unevenly distributed generating resources in the country so as to optimize their potential, a strong interconnected transmission grid is required, which interconnects various generating stations and load centers. This ensures an uninterrupted supply of power to a load center, even if there is a failure at the local generating station or a maintenance shutdown. In addition, power can be transmitted through an alternative route if a particular section of the transmission system is unavailable.

***The 3-Tier Structure in India***

In India, the T&D system is a 3-tier structure comprising distribution networks, state grids, and regional grids. The distribution networks and state grids are principally owned and operated by SEBs or other state utilities, or state governments (through state electricity departments). Most of the interstate and inter-regional transmission lines are owned and operated by Power Grid or its joint ventures. At present there are five regional grids operating in India, in the Northern, Eastern, Western, Southern and Northeastern regions. Regional or interstate grids facilitate the transfer of power from a region with a surplus to one with a deficit. These regional grids also facilitate the scheduling of maintenance outages and coordination between power plants. Presently the Northern, Eastern, Western and North Eastern regions, are operating in one synchronous mode with total installed capacity of 90,000 MW and the Southern region is interconnected with Western Region and Eastern Region through HVDC links. (Ministry of Power, Annual Report 2009-2010).

***Towards an All-India Grid***

At the time of Independence, transmission power systems in India were isolated systems developed in and around urban and industrial areas. The SEBs were responsible for development of generation, transmission, distribution and utilization of Electricity in their respective States. The objective of development was to have a coordinated process towards an integrated system. In 1964, for the purpose of coordinated power sector planning on a larger scale and integration of state grid systems towards optimum development and utilization of resources, the country was divided into five regions. Regional Electricity Boards were established in each region for facilitating the integrated operation of state systems and encouraging exchange of power among the states. For this, inter-state lines were planned, which were treated as centrally sponsored scheme. In 1981, the GoI approved a plan for setting up a national grid.

Since 2003, the focus of planning the generation and the transmission system in the country has shifted from regional self-sufficiency towards optimization of utilization of resources on a nationwide basis.

The process of setting up the national grid was initiated with the formation of the central sector power generating and transmission companies, National Thermal Power Corporation Limited (now known as NTPC Limited.), National Hydroelectric Power Corporation Limited (now known as NHPC Limited.) and Power Grid Corporation of India Limited. Our Company was made responsible for planning, constructing, operating and maintaining all inter-regional links and taking care of the integrated operation of national and regional grids.

***Increase to Transmission Capacity under the Eleventh and Twelfth Five Year Plans***

The focus of transmission system development for the Eleventh Five Year Plan is to provide adequate inter-regional and intra-regional transmission capacity so as to consolidate and strengthen the national grid towards a strong all-India grid. With the strengthening of inter-regional connections by 2012, the inter-regional capacity is expected to grow to 27,950 MW by the end of the Eleventh Five Year Plan, according to the Planning Commission’s Mid-Term Appraisal of the Eleventh Five Year Plan. The CEA anticipates that inter-regional transmission capacity would be on the order of 57,000 MW by

2015 and 75,000 MW by the end of the Twelfth Five Year Plan. The actual increase in transmission capacity will depend on corresponding growth in generation capacity. (CEA, Key Inputs for Accelerated Development of Indian Power Sector for 12th Plan & Beyond).

Setting up a national grid requires the gradual strengthening and improvement of regional grids and their progressive integration through extra high voltage and HVDC transmission lines. Of particular importance during the Eleventh Plan is the development of an inter-regional transmission system for the transfer of power from new hydroelectric power plants in the Northeastern Region. The existing capacity as at September 30, 2010 and the proposed addition to transmission lines at the outset of the Eleventh Five Year Plan are set forth in the table below:

| | **Transmission Capacity** | |
|---|---|---|
| | **Existing Capacity as at September 30, 2010 (ckm)** | **Targeted Capacity under Eleventh Plan (ckm)** |
| 765 kV | 3,829 | 7,850 |
| HVDC Up to 500 kV | 8,234 | 7,432 |
| 400 kV | 100,910 | 125,000 |
| 230/220 kV | 130,788 | 150,000 |
| **Total** | **243,761** | **290,282** |

*Source: CEA, Monthly Review of the Power Sector, September, 2010; CEA, Key Inputs for Accelerated Development of Indian Power Sector for 12th Plan & Beyond*

Historical and inter-regional transmission capacity planned at the outset of the Eleventh Five Year Plan are set forth in the table below:

| | **Capacity as at March, 2009 (MW)** | **Planned Capacity at the End of Fiscal 2012 (MW)** |
|---|---|---|
| East-South | 3,630 | 3,630 |
| East-North | 6,330 | 12,130 |
| East-West | 2,990 | 6,490 |
| East-North East | 1,260 | 2,860 |
| North-West | 3,220 | 4,220 |
| West-South | 1,720 | 2,720 |
| North East/East North/West | | 6,000 |
| **Total** | **19,150** | **38,050** |

*Source: CEA, Key Inputs for Accelerated Development of Indian Power Sector for 12th Plan & Beyond*

***Investment in Transmission under the Eleventh and Twelfth Five Year Plans***

Traditionally, the government has focused on investments in power generation to alleviate the acute power shortage in the country. In the process, the T&D segment has remained neglected and attracted significantly less investments in comparison to generation. The investment ratio between generation and T&D in India has historically been 2:1 against an ideal investment ratio of 1:1. Average investment in T&D during the Tenth Five Year Plan was about 32% of investment in generation. (Ministry of Power, Report on the Working Group on Power for Eleventh Plan (2007-2012)).

An investment of ₹ 1,400 billion was originally planned in the transmission sector in the Eleventh Five Year Plan as set out below:

| **Eleventh Five Year Plan** | **(₹ in billions)** |
|---|---|
| Inter-State | 750 |
| Intra-State | 650 |
| **Total** | **1,400** |

*Source: Ministry of Power, Report of the Working Group on Power for Eleventh Plan (2007-2012).*

The CEA estimates that the targeted investment in the Twelfth Five Year Plan (2012-2017) in the power sector will exceed that of the Eleventh Year Plan. The estimated investment in transmission and distribution to be made in the Twelfth Five Year Plan is set forth below:

| Twelfth Five Year Plan | (₹ in billions) |
|---|---|
| Transmission | 2,400 |
| Distribution | 4,000 |
| **Total** | **6,400** |

*Source: CEA, Key Inputs for XIIth Plan Financing of Power Sector*

***Private Investments in Electric Power Transmission***

In 1998, the Electricity Laws (Amendment) Act was enacted, which recognized transmission as an independent activity, distinct from generation and distribution, and allowed private investment in the sector.

In 2000, the GoI issued guidelines whereby the state transmission utilities (STUs, SEBs or their successor entities) and the central transmission utility (the Company) could identify transmission projects for the intrastate and the inter-state/inter-regional transmission of power, respectively. The STUs and the CTU could invite private companies to implement these projects through an IPTC or on a joint venture basis.

The role of the IPTC would be limited to the construction, ownership and maintenance of transmission systems. Operations of the grid, including load despatch, scheduling and monitoring, will be undertaken by the STUs and the CTU at the intrastate and interstate/inter-regional levels, respectively. The CTU and STUs would be involved in the development phase for obtaining project approvals and various regulatory and statutory clearances (such as environment and forest clearances and the securing of rights of way), and would transfer the same to the private companies selected.

In April 2006, the GoI issued tariff-based competitive bidding guidelines for transmission services and bid process management and also issued guidelines for encouraging competition in development of transmission projects. The GoI also created an Empowered Committee, headed by a member of CERC. The functions of the empowered committee include identifying projects under the above scheme, facilitating preparation of bid documents, evaluating bids, finalizing project agreements and developing projects. Regarding intrastate transmission projects, the state governments can also adopt these guidelines and may constitute similar committees.

In May 2009, the GoI updated its regulations for the Empowered Committee and the tariff-based competitive bidding guidelines for transmission services.

As at January 31, 2010, the Empowered Committee had opened three inter-state transmission schemes to the tariff based competitive bidding process. Further, the Empowered Committee has proposed transmission works that would be open to competitive bidding during the Twelfth Five Year Plan as set forth in the following tables:

| | **Scope of Works under Package A1: System Strengthening Common for WR and NR** | |
|---|---|---|
| **S. No.** | **Name of the Line/Substation** | **Estimated Length (km)** |
| 1 | Dhramjaygarh-Jabalpur pool 765kV 1xD/C 765kV lines (one D/C line under PGCIL scope) | 350 |
| 2 | Jabalpur pool-Bina 765kV lines – 1X S/C line (1XD/C line under PGCIL scope) | 250 |

| | Scope of Works under Package A2: Synchronous Interconnection between SR and WR (Part-B) | |
|---|---|---|
| **S. No.** | **Name of the Line/Substation** | **Estimated Length (km)** |
| (i) | (ii) Raichur Sholapur 765 kV S/C line-1 | 230 |

| | Scope of Works under Package B: System Strengthening for WR | |
|---|---|---|
| **S. No.** | **Name of the Line/Substation** | **Estimated Length (km)** |
| 1 | Jabalpur Pool-Bhopal 765kV S/C line | 330 |
| 2 | Bhopal-Indore 765kV S/C line | 180 |
| 3 | Aurangabad-Dhule (new) 765kV S/C line | 150 |
| 4 | Dhule (new)-Vadodara 765kV S/C line | 250 |
| 5 | Dhule (new)-Dhule (MSETCL) 400 kV D/C quad | 40 |
| 6 | Bhopal-Bhopal (MPPTCL) 400 kV D/C quad | 40 |
| 7 | 2x1500MVA, 765/400kV substation at Bhopal | |
| 8 | 2x1500MVA, 765/400kV substation at Dhule | |

*Source: Ministry of Power, Annual Report 2009-2010*

### Rajiv Gandhi Grameen Vidyut Yojana

To further strengthen the pace of rural electrification, and with an objective to electrify all villages and rural households initially over a period of five years from 2005 to 2010, the GoI launched the Rajiv Gandhi Grameen Vidyutikaran Yojana ("**RGGVY**") program in March 2005. RGGVY aims to create a rural electricity distribution backbone by providing for substations, distribution transformers and decentralized distribution generation systems where grid supply is not feasible. Under the RGGVY, the GoI will provide a 90% capital subsidy, and make soft loans for the 10% balance to SEBs through REC Limited. Under the Eleventh Five Year Plan, ₹ 280 million had been sanctioned as of January 31, 2010 in capital subsidies. (Ministry of Power, Annual Report 2009-2010).

As at January 31 2010, progress on the RGGVY scheme, as reported by Ministry of Power, included the following:

- 71,983 villages had been electrified and 9.12 million connections to households below the poverty line have been provided;
- 567 projects, covering 118,499 un-electrified villages and connections to 24.6 million households had been sanctioned;
- All the states with the exception of Delhi and Goa had signed Memorandum of Agreement agreeing to the conditions for implementation of the program as envisaged under RGGVY.

## OVERVIEW OF THE INDIAN INTERNET BROADBAND SECTOR

### *Internet Broadband Technologies*

Some of the more popular technological platforms for internet broadband use include fiber optic, DSL/ADSL broadband, satellite and wireless technologies such as WiMAX, WiFi and 3G. Fiber optic cable uses lasers or light emitting diodes to transmit pulses of light through fiber cable. Fiber optic cable can carry thousands of times more data than either electric signals or radio waves because light uses higher frequencies. The infrared laser light is typically used in telecommunications has a frequency of roughly 100 MHz. Currently, most fiber optic cables transmit light only at one frequency, but, as technology improves, the bandwidth on fiber optic lines can be increased by simply adding more frequencies, thereby multiplying the capacity to carry data information. According to the

TRAI, there is no limit to the upstream and downstream bandwidths and fiber-ethernet will remain the key "wired" network of the future. (TRAI, Indian Telecom Services Performance Indicators January-March 2010 released July 2010).

***Growth in the Indian Internet Broadband Sector***

In the 1990s, the GoI recognized the need to encourage the spread of the internet in the country. The GoI launched internet services in India in 1995 through Videsh Sanchar Nigam Limited. In November, 1998 the GoI opened the sector to private operators with liberal license conditions, no license fees and an unlimited number of players. The number of subscribers grew more than 200% per year, from 0.28 million in March, 1998 to 3.04 million by March, 2001, owing to supportive government policy and to lower internet tariffs resulting from the entry of a large number of private players. (TRAI, Draft Recommendations on Growth of Broadband, released September 17, 2007).

More recent growth in the number of internet subscribers and the number of broadband subscribers among internet subscribers is set forth in the following table:

| | **Growth of Internet and Broadband Subscribers (in millions)** | | | | |
|---|---|---|---|---|---|
| | March, 2006 | March, 2007 | March, 2008 | March, 2009 | March, 2010 |
| Internet subscribers | 6.94 | 9.27 | 11.09 | 13.54 | 16.18 |
| Broadband subscribers | 1.35 | 2.34 | 3.87 | 6.22 | 8.77 |

*Source: TRAI, Indian Telecom Services Performance Indicators January-March 2007, released July, 2007; TRAI, Indian Telecom Services Performance Indicators April-June 2008 released October, 2008; Indian Telecom Services Performance Indicators April-June 2009, released October, 2009; TRAI, Indian Telecom Services Performance Indicators January-March 2010, released July, 2010.*

Use of the internet has evolved over the years. When internet access became available in India in 1995, the vast majority of users accessed the internet through dial-up connections. The websites accessed were simple text pages that used low bandwidth. At the time, the internet was used primarily as a tool to obtain information easily and to facilitate communication through applications such as email.

The proliferation and popularity of internet applications has brought about a surge in internet usage. Reliable, high-speed internet connections for business and commercial uses has become a necessity. The internet is commonly used for email communication with large attachments, while narrow band e-commerce applications, such as online bill payment facilities, are also gaining in popularity. In conjunction, the internet has emerged as a source for personal entertainment. New usage categories are emerging, such as social networking sites like www.facebook.com and media-sharing sites like www.youtube.com. Such sites require large bandwidth consumption at the consumer level.

The resulting rise in internet traffic has created a growing requirement for internet service that is "always on," while capable of handling high throughput levels. Fixed line internet users are tending towards higher bandwidth services with the share of broadband subscribers in total internet subscribers increasing to 56.70% as at June, 2010. (TRAI, Indian Telecom Services Performance Indicators April-June 2010, released October, 2010).

According to the TRAI's Consultation Paper on National Broadband Plan released in June, 2010, access providers and national long distance operators were laying very limited amounts of fiber optic cables and instead concentrating on wireless, as the cost of right of way was very high. Because of the increase in bandwidth consumption, which wireless internet may not be able to support, urgent action was recommended to encourage penetration of optical fiber in urban areas.

## OVERVIEW OF THE INDIAN TELECOMMUNICATION SECTOR

### *Types of Telecommunications Infrastructure*

Telecommunication service providers utilize a combination of active and passive telecommunications infrastructure to provide access services to their customers.

- Active telecommunications infrastructure includes the hardware and software which is involved in the actual transmission and reception of telecommunications including the transceivers, antennae, cabling, feeders and other related equipment.
- Passive telecommunications infrastructure includes the various infrastructure components which support the active telecommunications infrastructure. These include ground based and rooftop towers, masts, shelters, SMPS, battery backups, DG Sets and air conditioning equipment.

### *Demand for Telecommunications Infrastructure*

Demand for our infrastructure solutions in the active and passive telecommunications infrastructure sector is largely dependent on the development, demand and new investment in wired and wireless telecommunications sectors.

The telecommunications sector in India has shown remarkable growth during the last decade propelled largely by unprecedented demand for mobile telephones. India has the second largest telecom network and the second largest wireless network in the world. (Department of Telecommunications, Annual Report 2009-2010).

The recent growth in the number of telephones in India is set forth in the following table:

| | Growth of Telephones (in millions) | | | | |
|---|---|---|---|---|---|
| | March 2006 | March 2007 | March 2008 | March, 2009 | March, 2010 |
| Fixed Lines | 40.23 | 40.77 | 39.41 | 37.96 | 36.96 |
| Wireless | 101.86 | 165.09 | 261.08 | 391.76 | 584.32 |
| Gross Total | 142.09 | 205.86 | 300.49 | 429.72 | 621.28 |
| Annual Growth | 44% | 45% | 46% | 43% | 44.% |

*Source: Department of Telecommunications, Annual Report 2009-2010; TRAI, Indian Telecom Services Performance Indicators January-March 2010, released July, 2010.*

The Indian telecommunications market has the potential to grow further. With a large percentage of the population yet to have access to telecommunication and with nationwide tele-density of 56.83% nationwide and rural tele-density of 26.43% as at June, 2010, potential for the sector remains large, especially in urban areas where wireline and internet services are yet to make significant inroads. Even the mobile services space, which has seen exponential growth in urban areas, has not reached the vast majority in rural areas. The focus of the stakeholders is now shifting to untapped rural areas, which will provide the engine for a second phase of the growth of the Indian telecommunications market. The targeted rural tele-density has been upgraded to a target tele-density of 40% by 2014 and one billion telephones in the country by 2015 are being contemplated. (TRAI, Indian Telecom Services Performance Indicators April-June 2010, released October, 2010; Department of Telecommunications, Annual Report 2009-2010).

Potential for further growth in the requirements for telecommunications infrastructure is also due to increased bandwidth demands for value-added services. The Average Revenue per User ("**ARPU**") for GSM services declined by 7% to ₹ 122 in the three month period ended June 30, 2010. ARPU for CDMA services similarly declined by 3% to ₹ 74 for the three month period ended June 30, 2010.

With the object of increasing the ARPU for mobility services, telecommunication service providers are attempting to deliver value added content like streamed video and television content over 3G and WiMax networks which will become available to them through a competitive bidding process which took place between May 24, 2010 and June 11, 2010. Such services will increase bandwidth requirements and hence infrastructure requirements per user. (TRAI, Indian Telecom Services Performance Indicators April-June 2010, released October, 2010; Department of Telecommunications website accessed September 9, 2010).

An April, 2007 recommendation paper published by the TRAI on infrastructure sharing analyzed the available passive and active telecommunications infrastructure in India and concluded that in order to provide 250 million telephones to subscribers by December 2007 and 500 million telephones by 2010, about 135,000 towers would be required by 2007 and 330,000 towers by 2010, as against 100,000 towers which existed at that time. (Telecom Regulatory Authority of India, Recommendations on Infrastructure Sharing, released April, 2007). The paper recommended meeting demand by sharing infrastructure among service providers as a solution to the high capital costs of constructing new towers.

# OUR BUSINESS

## OVERVIEW

We are India's principal electric power transmission company. We own and operate more than 95% of India's interstate and inter-regional electric power transmission system ("**ISTS**"). In that capacity, as at September 30, 2010, we owned and operated 79,556 circuit kilometers of electrical transmission lines and 132 electrical substations. In Fiscal 2010, we transmitted approximately 363.72 billion units of electricity, representing approximately 47% of all the power generated in India. In the six months ended September 30, 2010, we transmitted approximately 202.59 billion units of electricity, representing approximately 51% of all the power generated in India. We were ranked as the world's third largest transmission utility by the World Bank in January 2009.

We have been entrusted by the GoI with the statutory role of Central Transmission Utility ("**CTU**"). As CTU, we operate and are responsible for the planning and development of the country's nationwide power transmission network, including interstate networks. We are also required to facilitate non-discriminatory open access to available capacity in the ISTS.

We were designated a Mini-Ratna Category-I public sector undertaking in October 1998 and we were conferred the status of "Navratna" by the GoI in May 2008, which provides us greater autonomy to undertake new projects without GoI approval and allows us to make investments in subsidiaries and joint ventures, subject to an investment ceiling set by the GoI. We have received the highest annual performance rating of "Excellent" from the GoI in each year since Fiscal 1994.

We commenced our operations in Fiscal 1992 as part of an initiative of the GoI to consolidate all the interstate and inter-regional electric power transmission assets of the country in a single entity. Accordingly, the transmission assets, including transmission lines and substations, of all central sector electricity generation utilities that operated on an interstate or inter-regional basis were transferred to us from Fiscal 1992 to Fiscal 1994. For more details of our history, see "***History and Certain Corporate Matters***" on page 130.

From April 1, 2007 to September 30, 2010 we completed 32 transmission projects valued in the aggregate at approximately ₹ 138.6 billion. As at September 30, 2010, we had 68 transmission projects in various stages of implementation. As at September 30, 2010, we have spent ₹ 291.2 billion towards investment in transmission projects during the GoI's Eleventh Five Year Plan, which began on April 1, 2007 and ends on March 31, 2012. The mid-term goal of the Eleventh Five Year Plan is to achieve a national power grid with inter-regional power transfer capacity of 27,950 MW, which would include our transmission system and that of others.

The tariffs for our transmission projects are determined by the Central Electricity Regulatory Commission ("**CERC**"), pursuant to the Electricity Act 2003 and CERC regulations. The current CERC regulations are the CERC (Terms and Conditions of Tariff) Regulations, 2009, ("**Fiscal 2010-2014 Regulations**"), which are based on a cost-plus-tariff based system and provide us a return on equity on pre-tax basis at a base rate of 15.5%, to be grossed up by the normal tax rate as applicable for the respective year.

A crucial aspect of the operation of an electric power system is management of the power flow in real time with reliability and security on a sound commercial and economic basis. Since 1994 the GoI has progressively entrusted us with the operation of the Regional Load Despatch Centres ("**RLDCs**") in each of the five regions into which India is divided for purposes of power transmission and operation. As the RLDC operator, we have modernized the regional and state load despatch centers and their communication networks. In Fiscal 2009, the National Load Despatch Centre ("**NLDC**") was established. The NLDC is responsible for monitoring the operations and grid security of the national grid and supervises the scheduling and despatch of electricity over inter-regional lines in coordination with the RLDCs. All bilateral transactions are undertaken through the RLDCs, while transactions facilitated by the power exchanges are undertaken by NLDC. Our wholly-owned subsidiary, Power System Operation Corporation Limited ("**POSOCO**"), was established in March 2009 to oversee the grid management function of the RLDCs and NLDC. POSOCO received a certificate of commencement of business in March 2010, and we are in the process of transferring the movable assets of our power system operations segment to it. During Fiscal 2010, approximately 52.37 billion units of inter-regional energy transfer were facilitated across the country as compared to approximately 46.03 billion units in Fiscal 2009. The fees generated from our RLDC and NLDC operations are determined by CERC, pursuant to the Electricity Act and CERC regulations, and is presently based on a cost-plus-tariff based system.

Leveraging on our strength as India's principal power transmission company, we have diversified into the consultancy business. Since Fiscal 1995, our consultancy division has provided transmission-related consultancy services to over 115 clients in over 330 domestic and international projects. As at September 30, 2010, we were engaged in providing consultancy services to our clients in 75 domestic and international projects. In our consultancy role, we have facilitated the implementation of GoI-funded projects for the distribution of electricity to end-users through the RGGVY in rural areas and, until March 2009, the Accelerated Power Development and Reform Programme ("**APDRP**") in urban and semi-urban areas.

We have also diversified into the telecommunications business since 2001, utilizing our nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire on power transmission lines. As at September 30, 2010, the network consisted of 20,733 kilometers and connected 129 Indian cities, including all major metropolitan areas. We believe we are one of the few providers of telecommunications infrastructure with a significant presence in remote and rural areas. The availability of our telecom backbone network has been consistently maintained at 99.9% during Fiscal 2010. We have been leasing bandwidth on this network to more than 70 customers, including Bharti Airtel, Bharat Sanchar Nigam Limited, National Informatics Centre, Dishnet Wireless Limited, and Tata Communications Limited.

We have received the following licenses to provide telecommunication infrastructure services: Infrastructure Provider Category - I to construct infrastructure assets such as dark fibre, right of way, duct space and towers, Internet Service Provider Category A licence to provide internet services and a National Long Distance license to provide end to end bandwidth services.

In Fiscal 2010 we generated a total income of ₹ 75,035.8 million and profit after tax of ₹ 20,409.4 million. In Fiscal 2010, our revenues from transmission and transmission-related activities constituted 92.3% of our total revenue from operations, with the balance coming from our consulting and telecommunication businesses and from short term open access. In the six months ended September 30, 2010, we generated a total income of ₹ 43,726.6 million and profit after tax of ₹ 13,545.8 million. Our revenues from our transmission and transmission related activities constituted 91.5% of our total revenue from operations for the six months ended September 30, 2010.

We are certified for PAS 99:2006, which integrates the requirements of ISO 9001:2008 for quality, ISO 14001:2004 for environment management and OHSAS 18001:2007 for health and safety management systems. We are also certified for Social Accountability Standard, SA 8000:2008 for all our operations.

We seek to operate our transmission system at high levels of efficiency. In Fiscal 2010, we maintained a system availability rate of 99.77%. According to Booz & Company's comparative benchmarking across global transmission companies, our Company was rated as one of the best in terms of system availability in Fiscal 2010. In the six months ended September 30, 2010, our system availability rate was 99.86%. We have had no major grid disturbances, meaning an interruption affecting an entire region or an inter-regional transmission system, in the last seven years.

The following table presents certain company-wide operating parameters for the periods indicated:

| | Fiscal | | | For the six months ended September 30, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| Transmission Network (circuit kilometers) | 66,809 | 71,437 | 75,289 | 79,556 |
| Substations (number) | 111 | 120 | 124 | 132 |
| Transformation Capacity (MVA) | 73,122 | 79,522 | 83,402 | 89,170 |
| System Availability (%) | 99.65% | 99.55% | 99.77% | 99.86% |

As at September 30, 2010, we operated a network of 79,556 circuit kilometers at 765 kV, 400 kV, 220 kV and 132 kV EHV AC and +/- 500 kV HVDC. Of this 60,197 circuit kilometers are 400 kV, 2,921 circuit kilometers are 765kV, 5,947 circuit kilometers are +/-500 kV HVDC and the balance run at lower levels. We are gradually increasing our network of 765 kV transmission lines with approximately 10,000 circuit kilometers and 20 substations under development.

## OUR STRENGTHS

We believe that the following are our principal business strengths:

### *Leadership position in Indian power transmission sector*

We are India's principal electric power transmission company, owning and operating more than 95% of India's ISTS. As at September 30, 2010, we operated a network of about 79,556 circuit kilometers of interstate transmission lines, 132 EHV AC and HVDC substations with transformation capacity of about 89,170 MVA and during the six month period ended September 30, 2010 we transmitted approximately 202.59 billion units of electricity, representing approximately 51% of all the power generated in India. We were ranked as the world's third largest transmission utility by the World Bank in January 2009.

We are responsible for the expansion and technological modernization of the national electricity grid of India. Further, in our capacity as CTU, we are instrumental in implementing the regulatory framework for the power transmission industry throughout the country.

According to the 2009 Platts Top 250 Energy Company Rankings, we are number 15 on the list of fastest growing Asian energy companies.

### *High operational efficiencies*

We have maintained an average availability of over 99% for our transmission system since Fiscal 2002 and we have not had a major grid disturbance, meaning an interruption affecting an entire region or an inter-regional transmission system, since January 2003. In order to ensure high rates of availability for our transmission systems, we monitor and maintain our infrastructure using modern techniques and technologies. Our levels of system availability allow us to earn additional income under certain incentive mechanisms built into our tariff structures pursuant to CERC tariff regulations. Since Fiscal 1994, we have been rated "Excellent" by the GoI on an annual basis as a result of our achievement of performance targets, which include demonstration of high operational efficiencies, set for us in memoranda of understanding that we agree to annually with the GoI.

Our operation and maintenance activities are ISO certified and our systems and procedures are updated to keep abreast with modern technology. Maintenance schedule documentation and procedures have been standardized across our assets and are available through our website portal. Periodic reviews are conducted at substations and line offices to evaluate the implementation of our systems and procedures and enhance the efficiency of our operations. Further, initiatives such as the replacement of old relays with advanced numerical or static relays, the refurbishment of existing transformers after carrying out residual age analysis have been undertaken to replace ageing transmission assets as per prevalent CERC tariff regulations. We have also introduced remote operations of existing sub-stations for optimal utilization of resources. The Ministry of Power has consistently awarded us National Awards for meritorious operational performance in the power sector since Fiscal 2005.

We have introduced state-of-the-art operation and maintenance measures such as carrying out live line maintenance using hotline maintenance equipment, including using helicopters to clean polluted insulators, and establishing Emergency Restoration Systems ("**ERS**") for the restoration of collapsed transmission lines in the minimum possible time. Further, we ensure frequent interaction between senior officials across all the regions in which we operate through multi-location video conferencing facilities.

***Effective project implementation***

We have extensive experience and expertise in implementing new transmission projects and expanding India's transmission systems. During the ninth, tenth and eleventh five year plans (through to September 30, 2010), we have added 12,436 circuit kilometers, 19,172 circuit kilometers and 20,086 circuit kilometers of transmission lines and 14, 36 and 30 sub-stations, respectively.

Our capabilities in this regard encompass many facets of transmission activities, from conceptualizing to the commissioning of projects. We contract out the construction of our transmission projects subject to our supervision and quality control.

We prioritize the efficient implementation of our transmission projects to meet stipulated time frames in order to be eligible for additional return on equity of 0.5% as per the Fiscal 2010-2014 Regulations and to derive maximum economic benefits from our commissioned projects. Our Integrated Project Management and Control System ("**IPMCS**") for the planning, monitoring and execution of projects has contributed significantly towards this goal. Under the IPMCS, various project implementation activities are broken down with identified key milestones to enable the monitoring and control of critical paths of implementation. Large transmission projects are often broken into separate elements with phasing in of commissioning that matches the priority of the requirements and allows for incremental increases to the revenue as parts of a project are commissioned. Procurement for our transmission projects is divided into well defined contracts awarded through competitive bidding. Advance action is taken for tendering, forest clearance and land acquisition, which are all critical aspects for the timely completion of a transmission project, even before investment approval is granted.

Following the award of contracts, an integrated plan governs the implementation of the transmission project, including control of the quality of materials and work during construction. We have a pool of trained and experienced personnel having expertise in all areas of project implementation, including system planning, design, engineering, contracts management, project management, supervision of construction, testing and commissioning activities.

***Attractive tariffs, competitive landscape and business model***

We are able to recover operating and maintenance charges as determined by CERC tariff regulations. Our transmission tariffs are presently determined under the Fiscal 2010-2014 Regulations on a cost-plus-tariff basis and provide us with a 15.5% return on equity until March 31, 2014. We also earn additional incentives for the timely commissioning of transmission projects and for maintaining high system availability pursuant to CERC norms. Further, as we have been designated as the CTU by the GoI, we have no direct competitors of significant size for our transmission business. In addition, many aspects of our core transmission business are characterized by a stable business model with low volatility and consistent returns. Our core business benefits from consistent and growing demand for power transmission and we provide an essential input for economic and societal growth. Because our transmission business has remained at our core since we commenced commercial operations, we have experience in managing our internal processes and systems, employees and physical assets. We rely on proven power transmission technologies but we also implement new innovations as opportunities arise.

***Diversified business portfolio***

Because of our established track record and technical expertise, since Fiscal 1995, our consultancy division has provided transmission-related consultancy services to over 115 clients in over 330 domestic and international projects. We are currently involved in 63 domestic consultancy contracts of various sizes. We have worked and we continue to work for various well-known government and private utilities such as: NTPC Limited, GMR Group Energy Sector Companies, Adani Power Limited, Jindal Power Limited, Jaiprakash Power Ventures Limited, EPTCL–Transmission Business and Lanco Power Limited**.** We are currently involved in 12 international consultancy projects in countries as diverse as Afghanistan, Bangladesh, Nigeria, Bhutan, United Arab Emirates, Sri Lanka and Nepal.

We have also leveraged our nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire on power transmission lines. As at September 30, 2010, the network consisted of 20,733 kilometers and connected 129 Indian cities, including all major metropolitan areas. We believe we are also one of the few providers of telecommunications infrastructure with a significant presence in remote and rural areas. The availability of our telecom backbone network has been consistently maintained at 99.9% during Fiscal 2010.

We have received the following licenses to provide telecommunication infrastructure services: Infrastructure Provider Category - I to construct infrastructure assets such as dark fibre, right of way, duct space and towers, Internet Service Provider Category - A licence to provide internet services and a National Long Distance license to provide end to end bandwidth services.

We generated revenues from our consultancy and telecommunications business of ₹ 4,268.9 million and ₹ 3,657.3 million in Fiscal 2010 and 2009, respectively. For the six months ended September 30, 2010, our revenues from our consultancy and telecommunications business amounted to ₹ 2,413.2 million.

***Strong financial position and cash flow from operations***

We have a strong financial position, which we believe will help us finance our expansion plans in the coming years. Our domestic bonds have been given the highest credit rating since Fiscal 2001, AAA by CRISIL, and LAAA by ICRA, and, since Fiscal 2008, CARE AAA by CARE. As at September 30, 2010, our debt-equity ratio was 2.1:1. Our high credit rating allows us to regularly access the debt markets to raise funds for capital expenditure at competitive rates. Our transmission projects have been funded primarily from cash generated from operations. Our net cash flow from operating activities was ₹ 33,780.7 million, ₹ 66,191.7 million and ₹ 65,906.4 million for the six month period ended September 30, 2010 and the Fiscal 2010 and Fiscal 2009 respectively. Our projects have also been funded in part by loans from the World Bank and the Asian Development Bank, which allow us to take loans at lower rates.

***Government support***

We believe that we derive a strategic advantage from our strong relationship with the GoI and we occupy a key position in plans for the growth and development of the Indian power sector. The President of India is the promoter of our Company and holds 86.36% of our issued and paid-up equity share capital with the power to appoint all our Directors, and in each year we enter into a memorandum of understanding with the GoI providing for our annual performance targets. The GoI's was supportive in securing the settlement of outstanding dues owed to us by the SEBs. The grant of "Navratna" status by the GoI in May 2008 provided us with strategic and operational autonomy and enhanced financial powers to take investment decisions without seeking GoI approval. The GoI's support also helps us establish international relationships through which we are able to win certain international consultancy projects.

***Skilled and experienced senior management team and competent and committed workforce***

We believe that our employees posses a level of competence and commitment that provides us with a key differentiator from our competition. Our senior executives have extensive experience in our industry and many of them have been with us for a significant portion of their careers. We believe that our senior management's expertise has played a key role in the growth of our business and in the development of consistent procedures and internal controls. In addition, the skills and diversity of our senior management team give us flexibility to respond to changes in the business environment.

We have been successful in attracting and retaining experienced staff in various areas, including operations, project management, engineering, technology, finance, human resources and law. We believe we have an employee team with a strong blend of experience and motivation. We invest significant resources in employee training and development, and we recruit through university campus selection and a competitive screening process to attract the best talent for entry-level positions.

## OUR STRATEGY

***Expand and strengthen our transmission network including the adoption of a higher voltage level system***

We intend to continue to rapidly increase our capacity to maintain and grow our leadership position and remain as the largest Indian power transmission company. The GoI's Eleventh Five Year Plan commenced on April 1, 2007. The mid-term goal of the Eleventh Five Year Plan is to achieve a national power grid with inter-regional power transfer capacity of 27,950 MW, which would include our transmission system and that of others. During the Eleventh Five Year Plan, up to March 31, 2010, we invested ₹ 254,405.2 million to further develop the national grid, including expanding inter-regional transmission systems and developing system strengthening schemes and transmission systems for the evacuation of power from central sector generation projects and UMPPs. Based on generation capacity targeted under the Eleventh Five Year Plan, we plan on capital expenditure of an aggregate amount up to ₹ 295,594.8 million for expansion in Fiscal 2011 and Fiscal 2012. From April 1, 2010 to September 30, 2010, we had invested ₹ 36,824.6 million.

As at September 30, 2010, we had 68 transmission projects in various stages of implementation. These projects involve approximately 40,000 circuit kilometers of transmission lines and 65 substations with a total power transformation capacity of approximately 106,000 MVA. We are in the process of adopting a higher voltage level system for our new projects. We are currently establishing a +/- 800 kV, 6,000 MW, HVDC, bi-pole line from the North Eastern Region to the Northern Region that we intend to transmit power over a distance of approximately 2,000 kilometers. We are facilitating the development and prototype testing of a 1,200 kV AC transmission system.

On May 31, 2010, the CERC accorded regulatory approval to us to proceed with the execution of nine high capacity transmission corridors, with HVDC links/765 kV UHVAC lines, to facilitate the evacuation of power from various generation projects being developed by independent power producers ("**IPPs**") within India. These nine corridors will help transport electricity from 48 new IPP plants, located in the coal belt, coastal areas capable of importing coal, or hydroelectric-rich areas in the Northeast region. The government-approved cost of the nine high capacity transmission corridors is ₹ 580,610 million. In addition, the Ministry of Power has directed us to construct transmission systems for the proposed 4,000 MW Chhattisgarh UMPP and 4,000 MW Orissa UMPP.

***Maintain efficient operating performance by modernising our infrastructure and services and by maintaining industry best practices.***

We intend to continue to maintain transmission availability above 99%, to optimise our operating costs and to incorporate more energy-efficient technologies. We are undertaking a range of initiatives to ensure optimal operating performance, including entering into an agreement with UMS Group Inc., an international utility management consulting firm specialising in the utilities industry, in March 2010 for the international benchmarking of our operation and maintenance practices. We intend to identify areas that require improvement and provide a plan for implementing best practices in operations, maintenance and technology.

As part of our continuing focus on efficient preventative maintenance, we have taken initiatives to undertake the aerial patrol of transmission lines by helicopter. If successful, we plan to deploy this system across our network.

We intend to modernize our infrastructure and services and to maintain industry best practices. Remote operation of substations allows for more effective utilization of our manpower and brings direct and indirect returns and benefits both from an operational and cost viewpoint. Currently, 26 of our substations are operated remotely. We are in the early stages of establishing a National Transmission Asset Management Centre and nine Regional Transmission Asset Management Centres to oversee the remote operation of most of our substations and maintenance hubs to cater to the maintenance requirements of nearby groups of substations rather than placing staff in each substation. In addition, we are in the process of developing and procuring 400 kV mobile substations to allow us to promptly restore power and repair damage to our substation facilities in the event of a natural disaster or major failure.

As part of our R&D initiatives we are undertaking a pilot project in the Northern Region involving the deployment of Phasor Measurement Units in a Wide Area Measurement System to potentially give us enhanced real-time situational awareness over our transmission systems in order to improve safety and reliability and to allow for review of significant system disturbances.

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***Continue to expand our telecommunications infrastructure operations***

We intend to expand our telecommunications infrastructure business. Our telecommunication infrastructure network benefits from the extensive geographic reach of our power transmission network. We anticipate adding to this network in accordance with market requirements. We plan to expand our telecom infrastructure network, including further diversification into value added services such as MPLS-VPN. Our Board has approved a plan to expand our network by approximately 2,000 kilometers in the current financial year.

With the focus now shifting from urban to rural connectivity, we see our role in the telecommunications arena becoming even more significant. We believe our power transmission network presence in rural and remote areas of the country can be leveraged to provide telecommunication services in such areas by co-locating wireless antennas on our tower infrastructure. As such, we are also planning to diversify into the business of leasing our tower infrastructure to independent tower firms and telecommunications service providers. We recently appointed a consultant to prepare the details of a financial feasibility study and draft agreements that will facilitate infrastructure sharing agreements and other tie ups with independent tower firms and telecommunications service providers. Based on a sample of 15,000 of our approximately 100,000 towers in operation, the report prepared by our consultant estimates that 10-15% of our towers are capable of carrying high voltage current and telecommunication signals together without interference. We have also carried out a collaborative study at Ballabgarh, Haryana for installation of antenna on our transmission towers to test suitability and found there was no interference. We are carrying out a pilot leasing project in collaboration with a service provider in the Gangtok area. The pilot leasing project has been in operation for over a year. We have floated tenders for the selection of telecom tower infrastructure providers for utilising our transmission towers in the states of Punjab, Haryana, Himachal Pradesh and Jammu and Kashmir.

***Continue to expand our consultancy business***

We intend to expand our consulting services in the domestic and international markets. We believe our Company has attractive growth opportunities as the largest power transmission company in India which we can further leverage to the benefit of our consultancy partners. We are focusing on expanding our business internationally and increasing our reach beyond the domestic market. We currently have 12 ongoing international consultancy projects and have recently been awarded projects in Sri Lanka, Afghanistan and Bangladesh. We believe that such initiatives will open new avenues for revenue and margin growth.

***Expand our corporate social responsibility initiatives***

We are committed to the cause of inclusive and sustainable socio-economic development and intend to expand our involvement in this area through our Corporate Social Responsibility ("**CSR**") policy. Effective in Fiscal 2010, we intend to invest each year in furtherance of our CSR initiatives an amount equivalent to 1% of our net profit after tax from the previous year. In line with our policy, we have taken up various activities addressing socio-economic issues of affected persons. We plan to expand our work in the areas of infrastructure, education, community health, tribal welfare, arts, culture, heritage and vocational training.

## OUR OPERATIONS

### Our Transmission Business

Our core business is the transmission of electric power. We own and operate a large network of transmission lines and infrastructure that constitutes most of India's ISTS and carries electric power across India. By virtue of being the CTU, we are deemed a transmission licensee under the Electricity Act.

The Indian power system has historically been divided into five regions for the planning and operation of electricity generation, transmission and distribution, namely the Northern, Southern, Eastern, Western and North-Eastern Regions. In general, the Eastern and North-Eastern Regions generate more electricity than they consume, and the other regions generate less electricity than they need. As a result, one of the overriding tasks of our transmission business is to move electricity from the high-generation Eastern and North-Eastern Regions to the high-consumption Northern, Southern and Western regions. As the owner and operator of most of the ISTS, we expand the system progressively, connect new customers to the system and operate and maintain the system. We have also engaged in joint ventures with respect to certain transmission projects.

***Constructing the ISTS***

We acquired our initial network of assets in Fiscal 1992 and subsequently through the Power Transmission Systems Ordinance, the GoI acquired and transferred the power transmission infrastructure of four of India's largest power generating companies to us. Thereafter, transmission assets from other central generating companies were transferred to us and we have subsequently expanded our transmission infrastructure ourselves.

*Completed Projects*

From April 1, 2007 to September 30, 2010, we completed 32 transmission projects and schemes, valued in aggregate at approximately ₹ 138.6 billion. We contract out the construction of most of our transmission projects to contractors subject to our supervision and quality control.

The following table sets forth certain information in respect of commissioned transmission projects from April 1, 2007 to September 30, 2010 the estimated completion cost for tariff-determination purposes of which exceeded ₹ 5,000 million:

**(₹ millions)**

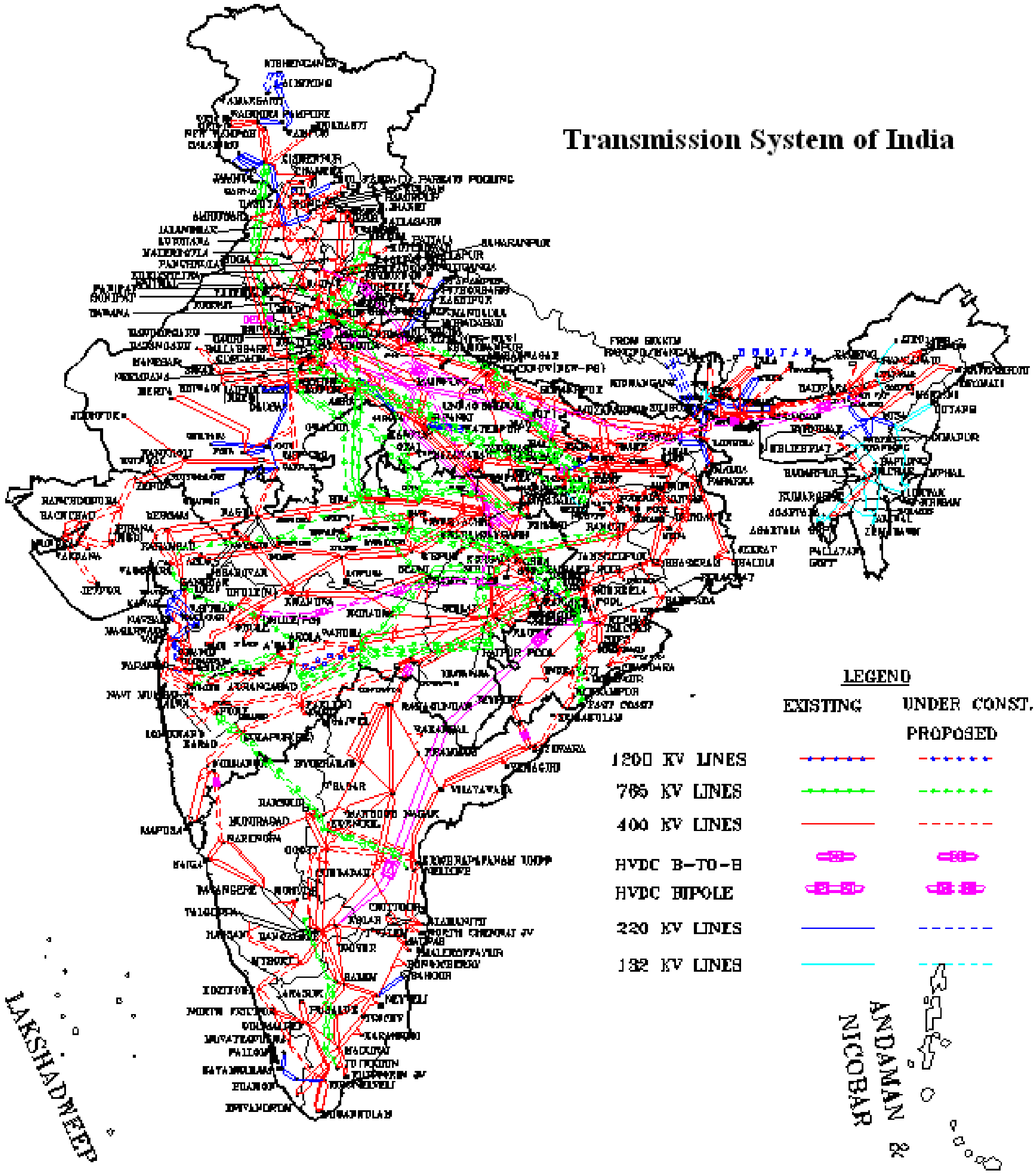
| Project | Estimated Completion Cost[1] | Date of Commercial Operations |
|---|---|---|
| Neyveli Transmission System - II | 9,051.2 | October, 2010 |
| Northern Region System Strengthening Scheme - V | 6,694.8 | April, 2010 |
| SIPAT - II Supplementary Transmission System | 9,552.4 | December, 2009 |
| SIPAT Transmission System Stage – I | 22,713.6 | April, 2009 |
| RAPP 5 & 6 Transmission System | 6,056.8 | April, 2009 |
| Kahalgaon Stage - II (Phase - II) Transmission System | 5,511.7 | March, 2009 |
| SIPAT - II Transmission System | 7,749.3 | January, 2009 |
| Kahalgaon Stage - II (Phase - I) Transmission System . | 26,901.8 | October, 2008 |
| Vindhyachal - III Transmission System | 6,481.5 | February, 2008 |

*Note:*

1. Actual costs incurred may vary from the estimated completion cost. Some balance expenditure has yet to be incurred.

POWER GRID TRANSMISSION NETWORK

The following map illustrates the locations of our completed projects and other major transmission assets:




*Ongoing Projects*

As at September 30, 2010, we had 68 transmission projects in various stages of implementation. These projects involve approximately 40,000 circuit kilometers of transmission lines and 65 substations with a total power transformation capacity of approximately 106,000 MVA. The budgeted cost of these projects is ₹ 817,511.9 million. As at September 30, 2010, we had incurred costs of ₹ 236,014.7 million towards the 68 transmission projects.

The following table sets forth certain information in respect of our ongoing transmission projects the total estimated cost of which is greater than ₹ 10,000 million:

(In ₹ million)

| Project | Nature of the project | Expected date of commissioning[1] | Approved cost as per investment approvals[2] | Estimated project cost as at September 30, 2010[3] | Total cost incurred as at September 30, 2010 |
|---|---|---|---|---|---|
| Transmission System for development of pooling station in Northern Part of West Bengal and transfer of power from Bhutan to Northern Region / Western Region | Generation-linked | January, 2015 | 44,045.7 | 44,045.7 | - |
| North East / Northern Western Interconnector – I Project | Generation-linked / Inter-regional | August, 2013 | 111,301.9 | 111,301.9 | 14,354.8 |
| Northern Region System Strengthening – XXI | Grid-Strengthening | April, 2013 | 16,775.7 | 16,775.7 | 10.8 |
| Transmission System associated with Sasan UMPP | Generation-linked | December, 2012 | 70,318.8 | 58,850.0 | 13,283.0 |
| Transmission System associated with Pallatana power project and Bongaigaon thermal power station | Generation-linked | December, 2012 | 21,440.0 | 21,440.0 | 852.9 |
| Transmission System associated with Vindhyachal – IV and Rihand – III Generation Projects | Generation-linked / Inter-regional | November, 2012 | 46,729.9 | 46,729.9 | 120.3 |
| Eastern Region Strengthening Scheme – III | Grid-strengthening | November, 2012 | 12,728.0 | 12,728.0 | 317.8 |
| Transmission System associated with Mundra UMPP | Generation-linked | October, 2012 | 48,241.2 | 46,820.0 | 9,207.8 |
| Common Scheme for 765 kV Pooling Station with DVC and Maithon RB Project | Generation-linked / Inter-regional | August, 2012 | 70,753.3 | 70,753.3 | 25,017.8 |
| Supplementary Transmission System associated with DVC and Maithon Right Bank Project | Generation-linked / Inter-regional | August, 2012 | 23,609.5 | 23,609.5 | 12,991.4 |
| System Strengthening in Northern Region for Sasan and Mundra UMPPs | Grid strengthening | August, 2012 | 12,168.3 | 10,850.0 | 1,100.7 |
| Transmission System associated with Kundankulam – Atomic Power Project | Generation-linked | March, 2012 | 21,590.7 | 21,590.7 | 16,140.2 |
| 765 kV System for Central Part of Northern Grid – PART – III | Grid-strengthening | May, 2012 | 10,751.2 | 10,751.2 | 1,142.1 |
| Transmission System associated with Kaiga 3 and 4 | Generation-linked | March, 2012 | 10,071.6 | 10,071.6 | 7,602.5 |
| 765 kV System for Central Part of Northern Grid – PART – I | Grid-strengthening | February, 2012 | 13,473.2 | 13,473.2 | 4,467.7 |
| 765 kV System for Central Part of Northern Grid – PART – II | Grid-strengthening | January, 2012 | 17,363.6 | 17,363.6 | 1,508.9 |
| Western Region Strengthening Scheme – II | Grid-strengthening | March, 2011 | 35,814.0 | 35,689.9 | 26,464.9 |

*Notes*:

1. The commissioning of each generation-linked transmission projects is subject to the completion schedule of the generation projects.

2. Prior to our grant of "Navratna" status in May, 2008, projects over ₹ 5,000 million were subject to approval by the Ministry of Power. Subsequent to May, 2008, the Board of Directors has the power to approve capital expenditures without any ceiling for our projects.
3. Project costs are subject to on-going variation primarily on account of escalation clauses for change in the prices of raw materials in the contracts entered into with the contractors, an increase or decrease in the actual interest rate from the budgeted interest rate, additional interest costs incurred due to delay in projects and changes in statutory duties and taxes. The original approved costs of the Transmission System associated with the Kundankulam Atomic Power Project and the Transmission System associated with Kaiga 3 and 4 were ₹ 17,792.9 million and ₹ 5,882.5 million, respectively.

### *Future Projects*

The GoI's Eleventh Five Year Plan commenced on April 1, 2007. The mid-term expectation of the Eleventh Five Year Plan is to achieve a national power grid with inter-regional power transfer capacity of more than 27,950 MW, which would include our transmission system and those of others. During the Eleventh Five Year Plan up to March 31, 2010, we invested ₹ 254,405.2 million to further develop the national grid, including expanding inter-regional transmission systems and developing system strengthening schemes, transmission systems for the evacuation of power from central sector generation projects and UMPPs. Based on generation capacity targeted during the Eleventh Five Year Plan, we plan on capital expenditure of an aggregate amount up to ₹ 295,594.8 million for expansion in Fiscal 2011 and Fiscal 2012. From April 1, 2010 to September 30, 2010, we had invested ₹ 36,824.6 million.

On May 31, 2010, the CERC accorded regulatory approval to us, as CTU, to proceed with the execution of nine high capacity transmission corridors that will help transport electricity to the main load centers from 48 new IPPs located in the coal belt, coastal areas capable of importing coal, or hydroelectric-rich areas in the Northeast region. The nine transmission corridors will be implemented progressively with the construction of the IPPs. The government-approved cost of the nine high capacity transmission corridors is ₹ 580,610 million.

Further, the Ministry of Power has directed us to construct transmission systems for the proposed 4,000 MW Chhattisgarh UMPP and 4,000 MW Orissa UMPP.

### *Joint Ventures*

We have investments in nine public-private joint ventures which have been established to develop certain new transmission lines and systems with private parties. Each of the public-private joint ventures has received a license to transmit power from CERC:

(i) Powerlinks Transmission Limited, incorporated to implement the transmission lines associated with the Tala Hydro Electric Power Project, with 49% shareholding by us and 51% shareholding by the Tata Power Company Limited. The project was commissioned in August 2006;

(ii) Jaypee Powergrid Limited, incorporated to develop the transmission system associated with the 1,000 MW power generation project at Karcham, with 26% shareholding by us and 74% shareholding by Jaiprakash Power Ventures Limited. The expected date of commencement of commercial operations is March 2011;

(iii) Torrent Powergrid Limited, incorporated to develop the transmission system associated with the 1,100 MW power project being implemented by Torrent Power Limited, at Akhakhol in Surat, Gujarat with 26% shareholding by us and 74% shareholding by Torrent Power Limited. Commercial operations on the Vapi-Jhanor transmission line at Sugen Bus began in March 2009 and commercial operations on the Jhanor-Dehgam transmission line at Sugen Bus (part of the 400 kV D/C Sugen – Jhanor line) began in March, 2010. We expect the 400 kV D/C Sugen – Pirana transmission line to commence operations by November 2010;

(iv) Parbati Koldam Transmission Company Limited, incorporated to develop the transmission system associated with the Parbati-II (800 MW) Hydro Electric Power Project in Kullu District, Himachal Pradesh and the Koldam (800 MW) Hydro Electric Power Project in Bilaspur District, Himachal Pradesh, with 26% shareholding by us and 74% shareholding by Reliance Infrastructure Limited. We expect the Parbati-II – Koldam 400 kV D/C to commence operations by December 2012 and the Koldam-Ludhiana 400 kV D/C by June 2012;

(v) Teestavalley Power Transmission Limited, incorporated to develop the 400 kV D/C Teesta-III –Mangan – Kishanganj transmission line associated with the 1,200 MW Teesta-III Hydro Electric Power Project in North Sikkim, with 26% shareholding by us and 74% shareholding by Teesta Urja Limited. The expected date of commencement of commercial operations is March 2012; and

(vi) North East Transmission Company Limited, incorporated to develop the 400kV D/C Palatana – Silchar – Bongaigoan transmission line associated with the 726 MW gas-based power project at Pallatana in Tripura, with 26% shareholding by us, 10% shareholding each by the Governments of Tripura and Mizoram, 6% shareholding by Government of Manipur, 13% shareholding by Assam Electricity Generation Company Limited and 35% shareholding by ONGC Tripura Power Project Company Limited. The expected date of commencement of commercial operations is November 2011.

We are also involved as equal equity joint venture partners with NTPC Limited, NHPC Limited and Damodar Valley Corporation in the incorporation of National High Power Test Laboratory Private Limited which will establish an on-line high power test laboratory to undertake a full range of short circuit testing. We have also entered into a joint venture agreement with NTPC Limited, Power Finance Corporation Limited and Rural Electrification Corporation Limited ("**REC**") in the incorporation of Energy Efficiency Services Limited, which will undertake the implementation of energy-conservation projects for businesses involved in climate change management, energy efficiency and energy conservation, and in which we have a 25% interest. Additionally we were also involved as equal equity joint venture partners with Infrastructure Leasing & Financial Services Limited in the incorporation of Powergrid IL&FS Transmission Private Limited which would have undertaken the development of transmission/sub-transmission projects, and transmission system with neighbouring countries outside India as well as SPUs within India. Presently, however, we have filed an application with the RoC for the declaration of Powergrid IL&FS Transmission Private Limited as a defunct company.

For more details on our joint ventures, see "***History and Certain Corporate Matters — Our Joint Ventures***" on page 138.

***Transmission Project Implementation***

Our transmission project implementation capabilities encompass all facets of a project's development, from conceptualisation to construction to the commissioning of a project, at which point it can begin operation.

We have adopted IPMCS for the planning, monitoring and execution of transmission projects. Under our project management system, various project implementation activities are broken down with identified key milestones to enable the monitoring and control of critical paths of implementation. Project procurement is divided into well defined contracts to be awarded through competitive bidding. Following the award of contracts, integrated plans govern the implementation of the project, including control of the quality of materials and work during construction. We have a pool of trained and experienced personnel having expertise in all areas of project implementation, including system planning, design, engineering, contracts management, project management, supervision of construction, testing and commissioning activities.

Set forth below is a summary description of how the implementation of our transmission projects generally flows.

*Planning and Conceptualization*

On an ongoing basis, we interact with various departments of the GoI and with generating companies, traders and the state utilities, in order to plan and evaluate implementation of new transmission projects so as to ensure that the goals of adequacy, reliability and security of the electric power system are achieved. Among many other factors, our planning efforts take into account possible future transmission configurations for interconnected areas, optimal utilisation of rights of way, grid operational constraints, environmental and social effects and cost comparisons. Based on our ongoing planning, we are able to formulate views in respect of the appropriateness and feasibility of projects that have been conceived.

The conceptualisation of new power transmission projects is finalised by us based on overall transmission system requirements, in consultation with the CEA and other interested parties, including generators, intended beneficiaries, state transmission utilities ("**STUs**") and traders. Before the finalization of any new transmission project, the beneficiaries are identified and targeted, and the generating capacity that such project will service is allocated among the beneficiaries in accordance with the requirements and availability of the region. The entire tariff for the transmission system is shared by the beneficiaries. The tariff, which is set according to CERC regulations, is recovered from the beneficiaries irrespective of the actual transmission of power.

Our transmission projects fall into the following broad categories:

- Generation-linked transmission projects, to facilitate the transfer of power from a specific new interstate or inter-regional generation project to its intended beneficiaries;
- Grid-strengthening projects, to strengthen power transfer capacity and add to reliability and security; and
- Inter-regional transmission projects, to strengthen power transfer capacity between regions and allow for inter-regional power exchanges.

The types of projects identified above facilitate the development of integrated regional power grids and the national grid.

Upon the finalisation of a scheme, a Detailed Project Report ("**DPR**") is prepared. This report addresses the justification for the project, the scope of work, cost estimates, pricing, financing and other matters, and is prepared for the consideration of the competent approving authorities.

*Capital Expenditure and Investment Approvals*

As a "Navratna" company, the Board of Directors has the power to approve capital expenditures without any ceiling for our projects.

The Board of Directors also has the power to establish joint ventures and wholly-owned subsidiaries in India or abroad, with a ceiling on equity investment in individual projects of 15% of our net worth, up to ₹ 10 billion, and an overall ceiling on all such projects which cannot exceed 30% of our net worth.

*Design and Engineering*

We have in-house competency in the design and engineering of EHV systems. We also have experience in the design and engineering of transmission lines and substations for different wind zones, climatic conditions, seismic zones, terrains, seashores and tough hilly terrain. We possess advanced software tools for electric system simulation studies and for the design of various kinds of towers, substation structures and foundations, including in regard to the electrical line parameters of transmission line and sub-station design, insulation co-ordination, grounding and other matters.

We are also finalizing, in association with a number of international consultants, the design and technical specifications for an 1,200 kV S/C (single circuit) transmission line. Our in-house design and engineering team has developed transmission line parameters and tower designs and three 1,200 kV S/C towers have been successfully tested in March of this year.

*Procurement process and award of contracts*

For procurement, a transmission project is divided into a number of well defined packages for which contracts are awarded on a competitive bidding basis: we typically enter into separate EPC contracts for tower erection and stringing of power lines and for substation construction, respectively, and we procure from vendors and supply to our EPC contractors the necessary conductors and insulators for transmission lines and transformers and reactors for substations. Qualifying requirements for bidders are stipulated and the bids are evaluated by a tender committee. Award recommendations are put up for approval to the appropriate authorities consistent with the applicable delegation of powers in our Company. The highest authority for the approval of any award recommendation is our Board of Directors. In the case of contracts funded by multilateral agencies, the award recommendations are also sent to them to confirm that they have "no objection."

The procurement process is based on our works and procurement policy and procedures, which we publicize to improve transparency and consistency. We also take into consideration applicable guidelines of concerned multilateral funding agencies such as the World Bank and the Asian Development Bank that may be financing a transmission project; and guidelines or similar terms set out in any applicable loan agreement. Because we are a public sector enterprise, the Comptroller and Auditor General of India and the Central Vigilance Commission of the GoI review our procurement process.

*Detailed engineering*

After contracts are awarded, detailed engineering is carried out as per the tender specifications, site conditions and applicable domestic and international standards and practices. Drawings and related documents are either generated in-house or prepared and submitted by the contractor. These are checked and approved to ensure compliance to the stipulated technical specifications and requirements and the site condition before the project is taken up for construction. Only type-tested equipment conforming to technical requirements and applicable national and international standards are put into service as part of our transmission line and substation infrastructure.

Over the years, we have standardized most of our designs and technical specifications to save time on detailed engineering in respect of items which are of a repetitive nature.

*Quality assurance and inspection*

In order to ensure the quality implementation of our various projects, we have adopted a total project quality assurance and inspection concept. We specify quality requirements in our technical specifications for projects, and we select vendors and sub-vendors based on stipulated qualifying and technical requirements. Goods and equipment are manufactured as per the agreed quality plan, and there are check points to confirm that technical requirements are being met at different stages of manufacturing. The process is also monitored for quality assurance during manufacturing. Major components and raw materials are sourced from approved sub-vendors of acceptable quality. We also carry out quality surveillance and process inspection periodically at the manufacturing facilities of vendors. The final product is tested according to national and international standards before it is despatched to the project site for installation. We also implement agreed field quality plans to ensure quality during installation and the testing and commissioning of goods and materials at the site. We have inspection offices around the country so that we can make timely inspections. We have also implemented a web-based inspection management system for our total inspection process.

We are certified for PAS 99:2006, which integrates the requirement of ISO 9001:2008 for quality, ISO 14001:2004 for environment management and OHSAS 18001:2007 for occupational health and safety management systems. We have been certified for compliance to these standards and specifications by BSI Management Systems until June 2013. We were also accredited with SA 8000:2008 for social accountability for all our facilities and with ISO 9001:2008 for all our RLDCs during Fiscal 2010 by BSI Management Systems.

*Project monitoring*

For the purpose of project implementation as well as operation and maintenance, our operations are divided on a regional basis. While the awarding of major contracts is done from our corporate headquarters, post-award contract management is done by our regional offices. A centralised monitoring group, located at our corporate and regional headquarters, monitors the implementation of projects and keeps management informed about progress and critical areas requiring their intervention.

**Our Transmission Customers**

***Connecting Customers***

As the owner and operator of most of the ISTS, we provide services to, among others:

- SPUs, STUs, state power departments, interstate generating utilities and interstate private generating utilities including captive generators;
- Private distribution licensees; and
- Directly connected customers, including industrial consumers of electricity whose premises, due to the size, technical characteristics or location of their electricity demands, are directly connected to the transmission system.

When we receive an application for connection and use of the ISTS from any of the above customers, we assess whether existing transmission assets are adequate for their plans or whether the addition or augmentation of transmission assets will be required. We respond as necessary with lists of additions or augmentations of transmission assets that would be required to provide connection to the ISTS. Customers pay transmission charges in respect of their connection, as more fully described below.

***Long Term Transmission Agreements***

We enter into a standardised agreement with each customer for long term transmission arrangements that we refer to as the Bulk Power Transmission Agreement ("**BPTA**"). We enter into BPTAs with each of our regional constituent customers (usually SPUs) for transmission of power from central sector generating stations through identified transmission assets. For generation-linked transmission systems, we typically enter into BPTAs with the beneficiaries of the generation. Where the beneficiaries are yet to be identified, we typically enter into BPTAs with generation companies.

Under the BPTA, we are required to maintain the transmission assets as per the guidelines issued by the Regional Power Committees and the RLDCs. The BPTA stipulates various terms and conditions for the payment of charges, billings and payments and energy accounting, as well as other obligations of the parties. Sharing of monthly transmission charges among various customers is made on the basis of notifications issued by the CERC from time to time. The BPTA also establishes mechanisms to ensure payment of transmission charges by our customers including opening of letters of credit by the customers. In the event our customers fail to pay the transmission charges, we have the right to discontinue or regulate power supply to such customers, subject to guidelines issued by the CERC.

A BPTA is generally signed for a period of 5 to 25 years with a provision that after expiry all terms and conditions shall continue until the BPTA is reviewed, extended or replaced by another agreement. There is also a provision stating that new assets become part of the same agreement for the purpose of payment of charges.

*State Power Utilities*

The SPUs are our major customers. The SPUs include SEBs as well as the entities that have been created by the unbundling of certain SEBs. In accordance with the terms of allocation letters issued by the GoI, we are obliged to undertake the transmission of electricity to SPUs from Central Sector generation stations through our transmission system.

Pursuant to the "One Time Settlement" in Fiscal 2003, the GoI, on behalf of the central sector power utilities ("**CSPU**"), including our Company, executed Tripartite Agreements with the RBI and the respective state governments, in order to effectuate a settlement of overdue payments owed to the central state power utilities by the SEBs. Under the Tripartite Agreements, each SEB (and, in the case of SEBs that have been unbundled, each of their successor entities) is required to establish and maintain a letter of credit in our favour with a commercial bank. The letter of credit is required to cover 105% of the preceding twelve months' average monthly billing and is required to be updated twice every year. If the letter of credit for the required amount is not in place, we have the right to regulate the power supply to the concerned SEB as per the provisions of the Tripartite Agreements and provisions set out by CERC. For more details on the provisions of the Tripartite Agreements see "***Management's Discussion and Analysis of Financial Condition and Results of Operations — Transmission Charges***" on page 263.

**Tariff Mechanism**

*Tariff Regulations*

Under the Electricity Act the GoI has the power to issue tariff policy and CERC formulates and notifies transmission tariff regulations for transmission licensees, guided by the tariff policy and the provisions of the Electricity Act. CERC has issued regulations setting forth the parameters for determination of tariffs for generation and transmission projects. We are permitted to charge our customers within the parameters set forth in specific tariffs applicable to our network.

*Tariff Determination Process*

Pursuant to the Electricity Act and CERC regulations, a transmission licensee such as our Company will seek from CERC a tariff determination in respect to each of its transmission projects. According to CERC regulations, the tariff will be set at a level intended to compensate the licensee for the construction of the transmission project and for operating the project thereafter. The tariff is determined based on the capital expenditure incurred or projected during the given tariff period. The CERC carries out a truing up exercise for the previous tariff period when it considers the tariff petition filed for the next tariff period.

The tariff is determined by a transparent public process and CERC is bound to follow established procedures. Interested parties can challenge the level of tariff we seek. Presently, the tariff norms notified by CERC are applicable for a period of five years with effect from April 1, 2009. Tariffs determined in relation to a particular project are expected to be reviewed on or before the end of the current tariff block on March 31, 2014.

*Tariff Structure for Fiscal 2010-2014*

AFC

Pursuant to the Fiscal 2010-2014 Regulations, CERC permits us to charge our customers transmission charges for the recovery of annual fixed cost ("**AFC**"). The AFC is set at a level which generally compensates us for the cost of the project and allows us to recover a pre-determined return on equity, interest on outstanding debt, compensation for operations and maintenance expenditure, depreciation and interest on working capital. The AFC norms in the Fiscal 2010-2014 Regulations cover, among other items:

- Return on equity on pre-tax basis at a base rate of 15.5%, to be grossed up by the normal tax rate as applicable for the respective year. For projects commissioned on or after April 1, 2009, there is an additional return of 0.5% if the new projects are completed within the timeline specified in the Fiscal 2010-2014 Regulations.

- Interest on outstanding debt.

  The recovery of our prescribed rate of return on equity and the recovery of interest on outstanding debt is dependent on the debt-equity ratio for the project, which is determined as follows:

  - Projects under commercial operation prior to April 1, 2009: The debt-equity ratio for such a project is considered to be equal to the debt- equity ratio as was determined by CERC on March 31, 2009.

  - Projects under commercial operation on or after April 1, 2009: The debt-equity ratio for such projects is considered to be 70:30. If the equity deployed is less than 30%, the actual debt-equity ratio is used for the purposes of determining the tariff. If the equity deployed is greater than 30%, the equity component is restricted to 30% of the total project cost. As such, the return on the excess equity can be recovered on the same basis as the recovery on the debt component.

- Depreciation is charged on the straight line method based on the rates prescribed by CERC and not on the rates prescribed in the Companies Act. Recovery of depreciation up to 90% of capital costs, excluding the cost of freehold land (that is not depreciable) is allowed. In the initial 12 year period from the date of commencement of commercial operation of the project, depreciation is recovered based on the rates prescribed in the regulations. The remaining depreciable value thereafter is spread over the balance useful life of the assets.

- Operation and maintenance expenditure is based on the number of kilometers of transmission lines and the number of bays in substations multiplied by normative rates specified in the Fiscal 2010-2014 Regulations. The operation and maintenance norms for HVDC stations have been specified separately.

- Interest on working capital. Working capital consists of (i) operation and maintenance expenditure for one month (normative rates specified in the Fiscal 2010-2014 Regulations),

(ii) an amount for maintenance spares (at 15% of operation and maintenance expenditure) and (iii) receivables equivalent to two months' of fixed cost. The rate of interest on working capital is equivalent to the prime lending rate of the State Bank of India as on the first day of the fiscal year in which the project is declared to be under commercial operation; for projects already under commercial operation at the time of commencement of the current block period, the rate will be based on the rate on the first day of the current block period, which is currently April 1, 2009.

Transmission Charges

- The transmission charge (inclusive of incentive) payable for a calendar month for a transmission system or part thereof is not based on volume of power transferred but rather on system availability, as per the following:

  AFC x ( NDM / NDY ) x ( TAFM / NATAF )

  Where:
  - AFC = Annual fixed cost specified for the year, in Rupees
  - NATAF = Normative annual transmission availability factor, in per cent
  - NDM = Number of days in the month
  - NDY = Number of days in the year
  - TAFM = Transmission system availability factor for the month, in per cent.

- The NATAF is 98% in respect of alternating current systems, 95% in respect of HVDC back-to-back stations systems and 92% in respect of HVDC bi-pole links. We are incentivized or penalised if the availability of our network is above or below 98%, 95% or 92%, respectively. These availability incentives are now linked with monthly transmission charges as compared to being linked to equity in the manner provided for in the tariff regulations for Fiscal 2004-2009 ("**Fiscal 2004-2009 Regulations**").

- Transmission elements are considered available for purposes of calculating the TAFM when shut down for reasonable periods for maintenance, for construction of elements of another transmission system and to restrict over voltage and manual tripping of switched reactors at the direction of an RLDC. Outage of transmission elements for force majeure events and for grid disturbances or failures not attributable to the transmission licensee are excluded from the potential available time of a transmission element for purposes of calculating the TAFM. The TAFM is calculated by different formulas for AC and HVDC systems .

- Customers can obtain a rebate on their charges by making timely payments, and may face late payment surcharges if their payments are delayed.

- Transmission charges corresponding to any plant capacity for which a beneficiary has not been identified and contracted are payable by the concerned generating company.

- We are paid transmission charges only after the commencement of commercial operation of a transmission project. If a new transmission project is linked to a new generation project, and the generation project is delayed, the commencement of commercial operation of the new transmission project is necessarily postponed. Under the Tariff Regulations, if we demonstrate to CERC that the transmission system is ready for regular service but is so prevented for reasons not attributable to our Company, our contractors or our suppliers, then CERC may approve a date of commencement of commercial operation prior to the transmission project coming into regular service. For example, by its order dated September 24, 2010, CERC approved a date of commercial operation for a part of our Kudunkulum transmission system in the Southern Region, prior to its entering regular service, due to the delay caused by the postponed commissioning of the associated Kudunkulum atomic power project.

- <u>Foreign Exchange Rate Variation (“**FERV**”)</u>

- We may recover the cost of hedging interest on and repayment of foreign currency loans and exchange rate fluctuations for unhedged interest on and repayment of foreign currency loans on a normative basis. If hedging of foreign exchange exposure is not undertaken, the extra rupee liability towards interest payment and loan repayment corresponding to the normative foreign currency loan in the relevant year is permissible provided it is not attributable to or its suppliers or contractors. We currently do not undertake any hedging against interest rate fluctuation.

- <u>Clean Development Mechanism (“**CDM**”)</u>

- We are permitted to share the proceeds of carbon credits generated from transmission projects approved as CDM projects with the beneficiaries of the transmission projects. In the first year after the date of commercial operation of the transmission system we retain 100% of the gross proceeds on account of CDM. In the second year, the beneficiaries’ share is 10%. The beneficiaries’ share increases progressively by 10% every year until it reaches 50%, whereafter the proceeds shall be shared in equal proportion by our Company and the beneficiaries.

- <u>Sharing of Transmission Charges</u>

Under the current mechanism for the sharing of transmission charges, pooled regional transmission charges are shared by the regional beneficiaries in proportion to the sum of their respective generation entitlements (in MW). Transmission charges for inter-regional links are shared in a ratio by the concerned regions as specified by CERC.

Transmission charges for 400 / 220 kV step down transformers and downstream systems, under inter-state transmission schemes brought under commercial operation after March 28, 2008 are payable only by the beneficiary directly served.

Transmission charges associated with transmission systems which are not pooled with the regional transmission system are shared by the beneficiaries of the concerned generating stations or the generating company. Transmission charges corresponding to any generation plant capacity for which a beneficiary has not been identified and contracted are paid by the concerned generating company.

CERC framed the *(Sharing of Inter State Transmission Charges and Losses) Regulations, 2010* on June 15, 2010. These regulations will come into force on January 1, 2011 for a period of five years and will implement a “point of connection” method of sharing the transmission charges of inter-state transmission systems in India, replacing the present system of regional postage stamps. These regulations provide that the yearly transmission charges, revenue requirement on account of FERV, changes in interest rates and losses will be shared amongst the users, including larger generating stations, SEBs, STUs connected with ISTS, any bulk consumer directly connected with the ISTS and any entity representing a physically-connected entity listed above. All users will be default signatories to the Transmission Service Agreement, which also requires these users to pay the point of connection charge, which covers the revenue of transmission licensees. The point of connection tariffs are based on load flow analysis and capture utilization of each network element by the users. The regulations also provide mechanisms for billing, collection and other commercial matters.

*Historical Tariff Structure for Fiscal 2005-2009*

From April 1, 2004 to March 31, 2009, our tariffs were determined pursuant to applicable CERC's tariff regulations for this period. CERC established an annual transmission service charge ("**ATC**") that was levied in the relevant region each year for a predetermined block of time based on a cost-plus-tariff based system. The ATC was set at a level which generally compensated the licensee for the cost of the project and allowed the licensee to recover a pre-determined return on equity, cost of debt service, compensation for operations and maintenance, depreciation, advance against depreciation and interest on working capital. The Fiscal 2005-2009 ATC norms covered, among other items:

- Actual capital expenditure up to the date of commencement of commercial operation. Capital expenditure incurred subsequently was also eligible, subject to a check for prudence by CERC;

- Return on equity of 14% on the equity component of the investment in the project;

- Interest on outstanding debt;

  The recovery of our prescribed rate of return on equity and the recovery of interest on outstanding debt was dependent on the debt-equity ratio for the project, which was determined as follows:

  - Projects under commercial operation prior to April 1, 2004: The debt-equity ratio for such a project was considered to be equal to the debt- equity ratio as was determined by CERC on March 31, 2004. For additional capitalisation of such project on or after April 1, 2004, the equity component was considered to be the lesser of (a) 30% of the additional capital expenditure, (b) the equity amount approved by a competent authority or (c) the actual equity employed.

  - Projects approved prior to April 1, 2004 and completed after April 1, 2004, or projects approved after April 1, 2004: The debt-equity ratio for such projects was considered to be 70:30. If the equity deployed was less than 30%, the actual debt-equity ratio was considered. If the equity deployed is greater than 30%, the higher equity component was acceptable subject to CERC being satisfied that the deployment of equity at the higher rate was in the interest of general public; otherwise the equity component was restricted to 30% of the total project cost.

- Depreciation was charged on the straight line method based on the technical life of the assets as prescribed by CERC and not at the rates prescribed in the Companies Act. During the moratorium period of the loan taken out to finance a project, the normative depreciation charged was considered to go towards payment on the loan in that period. Upon repayment of the entire loan, the remaining depreciable value of the relevant assets is spread over the balance of the useful life of assets. We broke up our project costs into five major asset classes, including land, which was not depreciable.

- An "advance against depreciation" to facilitate loan repayments. Because our loans are generally of shorter duration than the technical lives of our assets, amounts paid to us in respect of depreciation on such assets are generally insufficient to cover our debt service in respect of such assets. Advances against depreciation allow us to cover such costs. The advance is calculated assuming a 10-year loan repayment schedule. The maximum amount we could charge under AAD was the lower of the following:

  - The actual loan amount repaid during the year minus depreciation charged during that particular year; or

- One tenth of the original loan amount minus depreciation charged during that particular year

- Operation and maintenance expenditure was based on the number of circuit kilometers of transmission lines and the number of bays in substations multiplied by normative rates specified in the Fiscal 2004-2009 Regulations.

- Interest on working capital. Working capital consists of (i) operation and maintenance expenditure for one month, (ii) an amount for maintenance spares (1% of the total gross block on the date of commercial operation of the asset) and (iii) receivables equivalent to two months' average billing calculated on a normative availability level. The rate of interest on working capital was equivalent to the prime lending rate of the State Bank of India as on the first day of the fiscal year in which the project was declared to be under commercial operation; for projects already under commercial operation at the time of commencement of the Fiscal 2004-2009 block period, the rate was to be based on the rate on the first day of the current block period, which was April 1, 2004.

- An incentive was also available to us, based on the availability of our transmission lines beyond the target availability prescribed for such lines. The target availability prescribed for an alternating current system was 98% and for an HVDC system was 95%. The incentive was allowed at 1% of equity for each percentage point of increase in annual availability beyond the target availability, and calculated in following manner:

    - Incentive = Equity (Annual availability – Target availability)/ 100

    - Incentive payable to us was shared by long-term customers in the ratio of their average allotted transmission capacity for the financial year.

We were also penalised if we operated our transmission lines below their target availability. Customers' recovery of ATC for availability below the level of target availability was on pro-rata basis. At zero availability, no ATC was payable;

- Reimbursement of income tax payable by us on income streams from our core business; and

- Reimbursement or payments for fluctuations in exchange rates for offshore borrowings, recoverable on a year-to-year basis through imputed additional Rupee liability in respect of payment of interest and the repayment of principal (with any gains from fluctuations reimbursable to our customers).

Our customers could save on their charges by making timely payments, and may have faced late charges if their payments were delayed.

- <u>Sharing of Transmission Charges</u>

The ATC was recoverable based on the prescribed target availability of transmission lines. Transmission charges are billed monthly. The mechanism for sharing ATC has been laid out by CERC in its tariff norms issued on March 26, 2004 and subsequent amendments thereto. The mechanism will be in effect until December 2010. It broadly comprises the following:

- Intra-regional transmission projects: ATC for an intra-regional transmission project (net of adjustments for the recovery of transmission charges under the open access system) is shared by each long-term transmission customer in proportion to its allocated share of in the total capacity for such project.

- Inter-regional transmission projects: ATC for an inter-regional transmission project is shared as follows:

    - For a customer having capacity allocation directly from a central generating station located in another region, allocation of the ATC is in proportion to its allocated share in the total capacity for such project;
    - After deducting the ATC allocated to customers (as described above), the balance of the ATC (net of adjustments for the recovery of transmission charges under the open access system) is shared between the two concerned regions for the project equally. Such charges, as allocated to a region, are shared by long-term transmission customers in the region to cover the costs of reliability support in proportion of their respective allocated capacity of the regional transmission system.
    - From April 1, 2008 to December 31, 2010, transmission charges for lines emanating from the Eastern Region are 100% recovered from the other region with the exception of lines between the Eastern Region and North Eastern Region.

**Our Other Roles in Transmission**

As the CTU, we participate in the following activities:

- Undertaking the transmission of electricity through the ISTS;

- Planning and coordination relating to the ISTS, including coordination among state transmission utilities, the GoI, state governments, generating companies, the regional power committees, the CEA, transmission licensees and any other parties deemed appropriate by the GoI;

- Ensuring development of an efficient, coordinated and economical interstate transmission lines for the smooth flow of electricity from generating stations to load centers; and

- Providing non-discriminatory open access to our transmission system for use by any licensee, generating company or consumer as and when such open access is provided by the applicable regulatory commissions in the various Indian states.

***Open Access***

The Electricity Act requires our Company, as CTU, the STUs and other licensees to provide non-discriminatory open access to their respective transmission or distribution systems in order to allow the use of transmission lines, distribution systems or associated facilities by any licensee or consumer or person engaged in generation.

CERC has issued regulations relating to open access in inter-state transmission and related matters and our Company, as CTU, oversees the procedure for implementing these regulations including formulating detailed procedures to facilitate the open access of the ISTS. Under CERC regulations, access is provided by way of short term open access, medium term open access or long term access.

*Connectivity*

"Connectivity" refers to the state of being connected to the ISTS by a generating station, a captive generating plant, a bulk consumer or an inter-state transmission licensee. A customer can apply to us as CTU for connectivity of ISTS. On receipt of the application, we process the application, in consultation and coordination with other agencies involved in the ISTS to be used, including the STUs. While granting connectivity, the name of the sub-station where connectivity is to occur, the method of connectivity and, if applicable, the dedicated transmission system are specified. Subsequently the applicant is be required to sign a connection agreement.

Thermal generating stations of 500 MW and greater and hydro generating stations or a generating station using renewable sources of energy of capacity of 250 MW and greater, other than captive generating plants, are not required to construct dedicated lines to the point of connection and such stations are taken into account for coordinated transmission planning by the CTU and CEA. In all the cases where dedicated transmission system up to point of connection are to be undertaken by the CTU, the applicant, after the grant of connectivity, signs a transmission agreement and furnishes a bank guarantee for the dedicated line. The time frame for commissioning of dedicated transmission systems from the signing of a BPTA or transmission agreement is nine months in addition to the time lines as specified by CERC in tariff regulations or actual date of commissioning.

The grant of connectivity does not entitle an applicant to interchange any power with the grid unless it obtains long-term access, medium-term open access or short-term open access. Therefore, no tariff is charged for connection except for a dedicated transmission system.

*Short Term Open Access*

We have successfully issued procedures and guidelines to facilitate short term open access and are responsible for the ongoing operation of the short term open access system. Pursuant to these procedures, the nodal RLDC is entrusted with the responsibility of short term open access application processing and scheduling, while making sure that the provision of short term open access applied for will not affect the security of the grid.

As RLDC and NLDC, we have been charging short term open access customers a fee for the scheduling of their access through the relevant load despatch centers. All bilateral transactions are undertaken through the RLDCs, while transactions facilitated by the power exchanges are undertaken by NLDC. These charges include application money and scheduling charges for each transaction and the total charges are dependant on the volume of transactions undertaken. This income is over and above the CERC determined fees and charges of the RLDCs and NLDC. Our transmission income from short term open access was ₹ 1,241.8 million and ₹ 1,088.4 million in Fiscal 2010 and the six month period ending September 30, 2010, respectively, or 1.7% and 2.6% of our total revenue from operations. The charges earned by RLDC and NLDC for providing short term open access amounted to ₹ 251.9 million and ₹ 129.9 million in Fiscal 2010 and the six month period ending September 30, 2010, respectively, or 6.7% and 6.2% of our other income.

Merchant power plants and around one hundred captive power plants across the country have taken advantage of short-term open access. Under open access, more than 18,244 transactions were approved during Fiscal 2010 involving about 39,500 MUs of energy. Since the introduction of short-term open access in inter-state transmission in May 2004, more than 40,000 bilateral transactions have taken place and more than 152,500 MUs have been exchanged. As defined under the CERC regulations, short term access is available for up to 3 months.

*Medium Term Open Access*

"Medium term open access" means the right to use the ISTS for a period between 3 months and 3 years. Application for medium term open access is made to us as CTU and may be made by a generation station, including a captive generating plant, a consumer, an electricity trader, distribution licensee, or a state government.

Medium term open access is to be granted if the resulting power flow can be accommodated in the existing transmission system or in a transmission system under execution, as the case may be. Augmentation is not to be carried out to the transmission system for the sole purpose of granting medium term open access. After consideration of the application and studies, the CTU may grant or reject an application or reduce the time period or the amount of power requested in the application. After the grant of medium term open access, an applicant is to sign an agreement for sharing the transmission charges that will form a part of the medium term open access agreement. After signing the medium term open access agreement, the applicant submits a bank guarantee to the CTU equivalent to the estimated transmission charges of two months.

*Long Term Access*

"Long-term access" means the right to use the ISTS for a period of 12 to 25 years. Pursuant to CERC mandates, we are responsible for the management of the long term access system for inter-state transmission. A customer can apply for long term access to the CTU. We review applications from long term access customers, generally IPPs, and carry out system studies to ascertain whether the long term access be immediately implemented or whether additional system strengthening is required. In cases where system strengthening is required, we consider the additional transmission elements necessary for the customer to access the system and the proposal is discussed and formalized in the regional transmission planning forum and RPC of the concerned region(s). Our goal under the long term access system is to evolve the optimal national transmission system while keeping in mind the existing and predicted transmission system, relevant time frames and available information of the power system. Once the application is granted long term access, we enter into a BPTA with the beneficiaries. If the eventual beneficiaries are not known at the time the application is granted, we enter into the BPTA by the applicant until the beneficiaries are finalized.

In the event that augmentation of the transmission system is to be undertaken, the applicant submits a construction phase bank guarantee as specified in the CERC regulation. As specified in the terms and conditions of the CERC regulation, it takes about nine months for pre-investment activities in addition to construction time for the completion of the transmission project.

As part of our mandate as CTU to facilitate the implementation of non-discriminatory long term access to customers across the country, on May 31, 2010, the CERC accorded regulatory approval to us to proceed with the execution of nine high capacity transmission corridors, with HVDC links/765 kV UHVAC lines, across the country. We have begun the tender process for these projects. The CERC will later prescribe power transmission charges to allow us to recover our costs.

***Grid Management and Load Despatch Function***

A crucial aspect of the operation of an electric power system is the management of load despatch in real time with reliability and security on an economical basis. In Fiscal 2009, we established the National Load Despatch Center. The NLDC is responsible for monitoring the operations and grid security of the National Grid and supervises the scheduling and despatch of electricity over inter-regional lines in coordination with the RLDCs. Our wholly-owned subsidiary, POSOCO, was established in March 2009 to oversee the grid management function of our operations. POSOCO received a certificate of commencement of business in March 2010, and we are in the process of transferring the movable assets of our power system operations segment it. Further, we modernised the five RLDCs and state load despatch centers and their communication networks, down to the level of individual substations.

Based on the declared capacity of interstate generating stations and the entitlements of states/ beneficiaries, daily generation schedules are prepared. Deviations from these schedules by either generators or customers attract Unschedule Interchange ("**UI**") charges. Under regulations notified by CERC, the RLDCs maintain and operate a "Regional UI Pool Account" for settlement of UI payments. Generators or customers drawing above the generation schedules make payments into the Pool Account and the payments are distributed to generators or customers drawing below the generation schedules. The payments are made on a pro rata basis from the available balance in the Pool Account. The liability of the RLDCs is limited to the amounts realized.

In certain circumstances, including in the case of unscheduled demand or unscheduled supply, there can be mismatches of demand and supply of electric power across our system. In such circumstances, the ISTS may be put under strain, and our Company, acting as the load despatch manager, may instruct generators to curtail their generation or load centers to refrain from drawing the power they are seeking to draw, notwithstanding their regular contract arrangements.

We earn fees and charges determined by CERC regulations. The fees and charges are paid by all inter-state generating stations and sellers, distribution licensees, buyers and transmission licensees. The fees and charges are determined on a cost plus basis and include a component of a fixed return on equity, employee costs, other operating costs and finance charges. The NLDC charges are apportioned to the five RLDCs which in turn bill these charges to the users.

***Role in Distribution and Rural Electrification***

In general, "distribution" refers to the movement of electric power after it leaves transmission and moves downstream towards individual consumers. The electric power distribution system in many parts of India is in need of modernisation in addition to capacity expansion and sectoral reform, especially in certain rural pockets of India where the system is being developed. The GoI has taken a number of initiatives to improve electric power distribution in general and rural electrification, in particular. The distribution strengthening schemes in urban and semi-urban areas were taken up under APDRP during Xth Plan (designated as R-APDRP during XIth Plan). Rural electrification was taken up by GOI under the RGGVY in March 2005.

Under the APDRP, we were appointed as an Advisor-cum-Consultant and in that role we assisted the Ministry of Power in monitoring the development of electricity distribution schemes covering urban and semi-urban areas spread over 18 states. We undertook the implementation of distribution improvement schemes in the states of Bihar, Uttar Pradesh, Goa, Gujarat, Tripura and Meghalaya on a deposit work basis. We implemented these schemes by following a process that included design, engineering, awarding of contracts, inspection and monitoring, which paralleled the process of our own transmission projects. Our participation in APDRP concluded in March 2009.

Under the RGGVY, we provide on behalf of state utilities electricity infrastructure to un-electrified and partially electrified villages along with free electricity service connections to households identified as falling below the poverty line. We have entered into quadripartite agreements involving the respective state government, SEB or DISCOM and the REC, to implement rural electrification projects on behalf of distribution utilities in the states of Bihar, Uttar Pradesh, West Bengal, Gujarat, Rajasthan, Orissa, Assam, Tripura and Chhattisgarh. These projects entail the progressive provision of infrastructure for approximately 71,450 villages in 65 districts. During Fiscal 2010, infrastructure was created for electrification in approximately 3,400 un-electrified villages against a target of 3,100 villages and service connections were provided to approximately 687,000 households identified as falling below the poverty line against a target of 600,000. As at September 30, 2010, electricity infrastructure had been established in approximately 43,850 villages in Bihar, Uttar Pradesh, West Bengal, Gujarat, Rajasthan, Orissa, Assam, Tripura and Chhattisgarh along with free electricity service connections to approximately 2.11 million households identified as falling below the poverty line.

The GoI, state governments and state utilities finance the projects. We are paid for our services under each programme, but we do not make our own investments in any of these schemes or projects. Where we implement a scheme or project, we are typically paid an amount covering the entire project cost plus an additional amount as a fee. The turnkey contractors and others who contribute to the implementation of the scheme or project are paid out of the funds received.

## Our Other Businesses

### *Consultancy*

Since Fiscal 1995, our company has provided consulting services in the transmission and distribution sector, including in grid management and capacity building, and in the telecom services to over 115 clients in over 330 domestic and international projects. As at September 30, 2010, we were engaged in providing consultancy services to our clients in 75 domestic and international projects.

We secure our consultancy assignments through bidding processes, from direct marketing and from potential clients approaching us. We believe our in-house expertise in a wide variety of fields in the power sector allows us to obtain assignments at the domestic and international level. We staff our assignments with teams of specialists from throughout our organisation. Employees take on consulting duties that fit within the areas of expertise they have developed by working in our core business. A central department at our corporate office coordinates, facilitates and supports service delivery.

Our domestic clients include almost all of the SPUs in India and NTPC Limited along with a number of private utilities including GMR Group Energy Sector Companies, Adani Power Limited, Jindal Power Limited, Jaiprakash Power Ventures Limited, EPTCL-Transmission Business and Lanco Power Limited.

We have undertaken and are currently undertaking international transmission, grid management and telecom consultancy assignments in Afghanistan, Bangladesh, Sri Lanka, Bhutan, Nepal, United Arab Emirates and Nigeria. We are particularly proud to have been associated with the construction of the 220/110/20 kV Chimtala substation and the Pul-e-Khumri - Kabul 220 kV Double circuit transmission line in Kabul, Afghanistan, that was completed by us pursuant to a consultancy assignment from the GoI, and was inaugurated in May 2009. This project was completed in testing terrain at altitudes ranging from 1,800 meters above sea level to more than 4,000 meters above sea level in temperatures as low as -30 degrees Celsius. With the commissioning of the Chimtala substation and associated transmission system, Kabul started receiving approximately 150 MW of power from neighbouring Uzbekistan. This was one of the largest infrastructure projects ever undertaken in Afghanistan and allows the residents of Kabul to enjoy the benefits of a stable source of electricity.

Our assignments tend to fall into one of three broad categories:

- Electricity distribution strengthening schemes and rural electrification;
- The execution of transmission- and communication system-related projects on a turnkey basis; and
- Engineering consulting assignments for Indian utilities and utilities in other countries.

We have also participated in the competitive bidding process for feasibility studies, engineering consultancy, project management, capacity-building and EPC projects funded by ADB, the World Bank and other multilateral funding agencies and have also jointly submitted tenders with Simplex Infrastructures Limited and other well known companies. In addition, we have submitted expressions of interest and prequalification documents to clients in various countries including Kenya, Ethiopia, Uganda, Rwanda, Benin, Ghana, Togo, Botswana, Oman, Qatar, Jordan, Yemen, Kazakhstan, Tajikistan, Uzbekistan, Armenia, Georgia, Ukraine, Kuwait, Nepal, Sri Lanka, Bhutan, Laos and Bangladesh to participate in international competitive bidding for feasibility studies, engineering consultancy, capacity-building and EPC projects.

We are paid part of our project cost or consultancy fee as an advance and the balance either in milestone-based payments or in regular periodic payments upon our raising of the invoice. In Fiscal 2010, our income from our consultancy business was ₹ 2,691.7 million. In the six months ended September 30, 2010, income from our consultancy business was ₹ 1,519.5 million. We believe that we provide a high level of customer satisfaction in respect of our consultancy services evidenced by the fact we secured 19 repeat orders in Fiscal 2010 for consultancy services from customers who had used our services in Fiscal 2009 or Fiscal 2010.

We seek to leverage our experience in the power transmission and telecommunications sector to continue to expand our consultancy business in India and abroad.

The following table sets forth certain information in respect of a selection of our significant domestic and international consultancy projects:

| Project | Year Engaged |
|---|---|
| **Completed Domestic** | |
| Consultancy services for design, manufacture, testing, supply, erection and commissioning of 2 x 150 MVA 220/66kV GIS at East Division Compound, Bangalore | Fiscal 2006 |
| Turnkey execution of transmission system associated with Bhilai Expansion Power Project (open access portion) | Fiscal 2006 |
| Turnkey execution of stringing a second circuit of 220kV line from Nalagarh to Manimajra on the existing 220kV D/C towers | Fiscal 2007 |
| Procurement of polymer insulators for replacement of existing conventional ceramic insulators of 400 kV D/C Ring Main around Delhi | Fiscal 2009 |
| Providing tower and foundation drawings for 765 kV SC transmission lines | Fiscal 2010 |
| Strengthening of sub-transmission scheme in Bihar under Phase I | Fiscal 2004 |
| **Completed International** | |
| Consultancy Services (tender evaluation and construction supervision) for power transmission and distribution project in Afghanistan funded by Asian Development Bank | Fiscal 2007 |
| Stringing OPGW on transmission lines from Thimphu to Phuentsholing, Chumdo to Paro in Bhutan | Fiscal 2003 |
| Stringing OPGW on transmission lines from the Tala Hydroelectric Project to the India-Bhutan border | Fiscal 2004 |
| Detailed project report for evacuation of power from the West Seti Hydro Project in Nepal | Fiscal 2006 |
| Pre-feasibility studies for interconnection between India, Sri Lanka and Bangladesh | Fiscal 2007 |
| **Ongoing Domestic** | |
| Turnkey Execution of 400 kV D/C Transmission System from Pallatana (Tripura) to 400 kV Powergrid Station at Bongagoan | Fiscal 2007 |
| Turnkey execution of 400 kV D/C Transmission Line totalling 400 ckm and four 400/200 kV substations | Fiscal 2010 |
| Turnkey construction of six 132/33kV sub-stations, four 132 kV bays and the associated 132kV transmission lines | Fiscal 2009 |
| Turnkey execution of LILO of one circuit of 400 kV D/C Silchar – Bongaigaon line and 400/220 kV, 2 x 315 MVA substation at Byrnihat | Fiscal 2009 |
| Upgrade of load despatch system in Orissa | Fiscal 2010 |
| Strengthening of sub-transmission scheme in Bihar under Phase II | Fiscal 2007 |
| **Ongoing International** | |
| Turnkey execution of 220 kV D/C Kabul to Phul-e –Khumri transmission line and substation at Kabul | Fiscal 2006 |
| Consultancy services for 400kV gas insulated substation and associated transmission lines. | Fiscal 2008 |
| Consultancy services for the Bangladesh segment of the Indo-Bangladesh Interconnection | Fiscal 2011 |
| Consultancy for Design and Construction of Punatshangchhu-I 400kV D/C Transmission Lines | Fiscal 2010 |
| Providing operations and maintenance training to DA Afghanistan Breshna Sherket engineers and technicians | Fiscal 2007 |

*Telecommunication*

We have diversified into the telecommunications infrastructure business, utilising our nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire ("**OPGW**") on our power transmission lines. As at September 30, 2010, the telecommunications network consisted of 20,733 kilometers and connected 129 Indian cities, including all major metropolitan areas. The availability of our telecommunications backbone network has been consistently maintained at 99.9% during Fiscal 2010. Our system offers a number of advantages over a typical underground optic fibre networks, being secure and free from rodent menace and vandalism.

Our telecommunication infrastructure network benefits from the extensive geographic reach of our power transmission network and covers substantially all the main territories of India. In addition, we are currently one of the few telecommunications infrastructure providers that has a presence in remote areas of India, such as Jammu and Kashmir, Himachal Pradesh and the North Eastern region (Assam, Manipur, Meghalaya, Nagaland and Tripura).

We have been granted Infrastructure Provider - I registration to construct infrastructure assets such as dark fibre, right of way, duct space and towers on November 7, 2002; Internet Service Provider Category - A licence to provide internet services on May 29, 2003 and a National Long Distance License to provide end to end bandwidth services on July 5, 2006. Our network deploys a 32 wavelength dense wavelength division multiplexing (DWDM) system and connects the metropolitan areas and remote locations in North East and Jammu and Kashmir. The balance of the network utilises SDH (STM 16/STM 4) systems. The following services are available on our network:

- E1/E3/DS3/STM1/STM4/STM16 Leased Line;
- Ethernet Private Leased Line;
- Multi-site LAN Interconnect plus Internet Access; and
- Internet bandwidth.

Our telecom customers lease point-to-point bandwidth on our telecom network pursuant to capacity agreements that are essentially service agreements. The term of such agreements vary from a period of three months to 15 years with provisions for extension on mutually agreed terms and conditions. The tariffs for these customers are as per TRAI notified rates with appropriate industry prevalent discounts. We have been leasing bandwidth on this network to more than 70 customers, including Bharti Airtel Limited, Bharat Sanchar Nigam Limited, National Informatics Centre, Dishnet Wireless Limited and Tata Communications Limited.

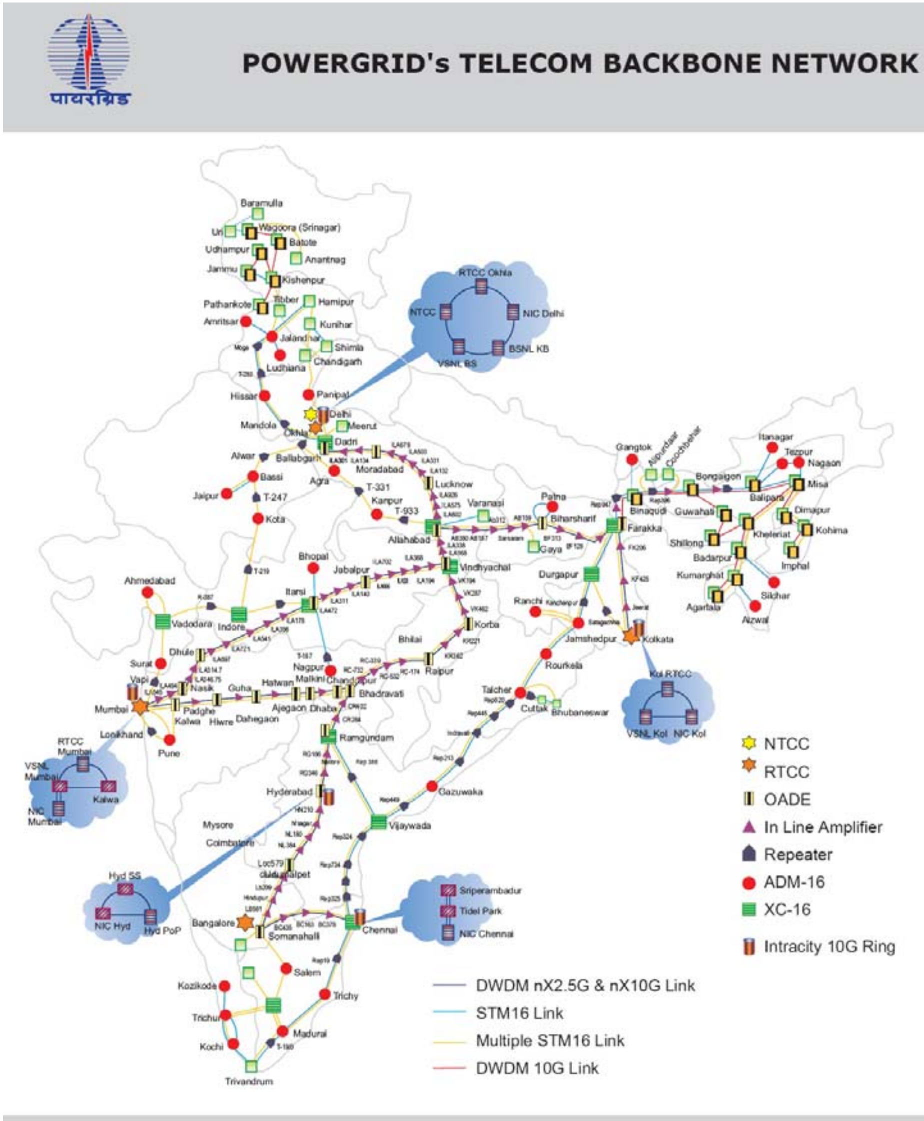
We seek to provide high reliability, high quality telecommunication services in a cost effective manner to end-user customers. In Fiscal 2010, revenue from our telecommunication business was ₹ 1,577.2 million. As at September 30, 2010, revenue from our telecommunications business was ₹ 893.7 million. Pursuant to CERC regulations concerning the use of transmission assets for other businesses, we are required to share with the beneficiary a fee of ₹ 3,000 per year per kilometer of OPGW on our power transmission lines.

We signed an agreement on September 16, 2010 with the National Informatics Centre and National Informatics Centre Services Inc. to be a serviced partner for the National Knowledge Network ("**NKN**"). NKN was approved in March, 2010 by the Cabinet Committee on Infrastructure. The NKN is intended to connect approximately 1,500 educational, government, agricultural, health care and research institutions by way of a high speed, reliable and secure data communication network in order to encourage sharing of knowledge, specialized resources and collaborative research. We currently expect revenue of approximately ₹ 9,000 million over a period of ten years following completion of the project.

We plan to expand and further diversify our telecom network, including the addition of value added services such as MPLS-VPN. We have invited bids from vendors to establish a MPLS system on our network.

With the focus now shifting from urban to rural connectivity, we see our role in the telecommunications arena becoming even more significant as our presence in rural and remote areas of the country as our power transmission network can be leveraged to provide telecom services in such areas by co-locating wireless antennas on our tower infrastructure. As such, our board has approved a plan to diversify into the business of leasing our tower infrastructure to independent tower firms and telecommunications service providers. We appointed a consultant to prepare the details of a financial feasibility study and draft agreements that will facilitate infrastructure sharing agreements and other tie ups with independent tower firms and telecommunications service providers. Based on a sample of 15,000 of our approximately 100,000 towers in operation, the report prepared by our consultant estimates that 10-15% of our towers are capable of carrying high voltage current and telecommunication signals together without interference. We also carried out a collaborative study at Ballabgarh, Haryana for installation of antennas on our transmission towers to test suitability and found there was no interference. We are carrying out a pilot leasing project in collaboration with a service provider in the Gangtok area. The pilot project has been in operation for over a year. We have floated tenders for the selection of telecom tower infrastructure providers for utilising our transmission towers in the states of Punjab Haryana, Himachal Pradesh and Jammu and Kashmir. We are not yet aware of whether or to what extent we will share revenue derived from co-locating wireless antennas on our tower infrastructure with CERC under the regulations concerning the use of transmission assets for other businesses.

A map of our telecom backbone network is set forth below:




## RESEARCH AND DEVELOPMENT

We engage in continuous research and development to improve the performance of our transmission system, optimise costs and incorporate new technologies. Liberalisation of the power transmission industry and globalisation have led to greater competition from both domestic as well as international companies, which has reinforced the need to upgrade our technology to ensure high levels of competitiveness and to be able to offer contemporary levels of technology. In order to meet these objectives, we undertake R&D activities through mix of in-house activity and project-managed, outsourced joint venture activity with various partners including reputed foreign manufacturers, and through interaction with various Indian and international research organisations.

Further, for the optimum utilization of right of way and effective grid operation and management, we deploy state-of-the-art technologies such as high temperature endurance conductors, series compensation including thyristor control, multi circuits tower configuration, compact substation layouts, high capacity carrying lines and systems, compact and tall towers in our transmission systems. Having established the 765kV EHV AC and 500kV HVDC technologies, as a next step to meet expected accelerated growth, initiatives have been undertaken to introduce high surge impedance loading lines, UHV, AC and DC systems, large scale automation of substations, use of helicopter in construction and maintenance across our systems to ensure development of efficient, coordinated and economical inter-state transmission system for the bulk transfer of power.

The increased interest in recent years for the transportation of energy across long distances, particularly from remote hydropower projects, has also increased the interest in higher DC transmission voltage than presently used. This has led to development of High Voltage Direct Current ("**HVDC**") and Ultra High Voltage Direct Current ("**UHVDC**"). 800 kV HVDC transmissions are economically attractive for bulk power transmissions of 5,000 – 8,000 MW over 1,000 – 1,500 km or above. We are currently in the process of establishing an 800 kV 6000 MW HVDC bi-pole line from the North Eastern Region to the Northern Region that we intend to transmit power over a distance of more than 2000 kilometers.

We are in the process of establishing a 1,200kV Ultra High Voltage AC transmission system. In order to assist with the development of this system, we are constructing a 1,200kV Ultra High Voltage AC test station at Bina, Madhya Pradesh in the Western Region in collaboration with manufacturers of specialized 1,200 kV AC equipment including BHEL, Crompton Greaves, Siemens and Sterlite Technologies. The test station will allow the manufacturers to field test their 1,200 kV equipment. We have begun the in-house development and prototype testing of 1,200 kV transmission line towers. Tower foundation and erection works are also progressing.

We continually strive to improve our operations and maintenance practices by introducing new technologies in monitoring the health of our system and equipment for fast-response to meeting high reliability requirements. To this end, our company has adopted many state of the art condition monitoring and diagnostic techniques including DGA, FRA, PDC, RVM for transformers, DCRM for circuit breakers, third harmonic resistive current measurement for surge arrestors to improve reliability, availability and life extension. Further, on line monitoring systems for transformers have been implemented to detect faults at incipient stage and provide alarms in advance in case of fault in the transformers. These systems will also provide the dynamic over load capacity of the transformers and will improve the reliability and availability of the transformers.

In order to fulfill a need for the creation of facilities for short-circuit testing of transformers we, along with equal joint venture partners NTPC Limited, NHPC Limited and Damodar Valley Corporation incorporated the National High Power Test Laboratory ("**NHPTL**") Private Limited in May 2009. This entity intends to establish a fully independent, stand alone, state-of-the-art, professionally managed on-line high power test laboratory to undertake a full range of short circuit testing for the electrical equipment manufacturing industry and power utilities. The NHPTL is proposed to be established at our Bina substation in the Western Region in four stages. Stage I and II are proposed to be taken up simultaneously and, when complete, will facilitate short circuit testing of large power transformers up to 400 kV and 765 kV voltage levels, for short-circuit withstand capabilities. The estimated cost of Stage I and Stage II of this facility is projected to be approximately ₹ 3,400 million and is expected to be commissioned by June 2012.

In addition, as part of our R&D initiatives we have undertaken a pilot project in the Northern Region for the implementation of Phasor Measurement Units in a Wide Area Measurement System. A Wide Area Management System allows grid operators enhanced real-time situational awareness over large transmission systems in order to improve safety and reliability and to allow review and analysis of significant system disturbances.

Our R&D efforts have helped us devise innovative tower designs, reducing the right of way requirement for our towers from 85 meters to 64 meters for a 765 kV line and from 52 meters to 46 meters for a 400 kV DC and AC line. In addition, the pole-type structures for 400 kV lines in urban areas such as Dadri Ballabhgarh transmission line has reduced the right of way requirement.

## HUMAN RESOURCES

We believe that our employees are key contributors to our success. Our success depends to a great extent on our ability to recruit, train and retain high quality professionals. We believe that our strong brand name, industry leadership position, wide range of growth opportunities and focus on long-term professional development give us significant advantages in attracting and retaining highly skilled employees.

The number of our employees as at March 31, 2009, March 31, 2010 and September 30, 2010 was 8,214, 9,162 and 9,717, respectively. The significant increase in employee numbers in Fiscal 2010 was due to increased business activity.

We undertook a number of HR initiatives during the year in response to intensifying competition for trained manpower. During the year, to nurture and develop the existing manpower, a series of long duration training and development interventions, both functional and developmental, were carried out with focus on building leadership capabilities, strategic orientation and skills to suit new businesses.

In Fiscal 2010, 6,561 employees underwent classroom, in-house or external training programs. We encourage our employees to develop management and technology skills through internal training programmes, through hand-on training programmes conducted at the premises of manufacturers such as Crompton Greaves Limited, Bharath Heavy Electricals Limited, ABB Limited, AREVA, through industry affiliations and external programmes with prominent management institutes such as the Indian Institute of Management, Indian Institute of Technology, Institute of Public Enterprises in Hyderabad, Management Development Institute in Gurgaon, Xavier Labour Relations Institute in Jamshedpur, Engineering Staff College of India in Hyderabad and the National Power Training Institute.

### *Unions*

We believe that we have a harmonious relationship with our workers' unions. Substantially all of our employees at the workman level are affiliated with labour unions. In recent years, we have had no instances of strikes or labour unrest. Most of our establishments have unions that are registered under the Trade Union Act, 1926. These unions are affiliated with one of the major central employee federations, namely the Bharatiya Mazdoor Sangh, the Center for Indian Trade Unions and the Indian National Trade Union Congress.

## ENVIRONMENTAL POLICY

The Ministry of Environment and Forest of the GoI is the nodal agency for the planning, promotion, coordination and oversight of India's environmental and forest policies and programs. The Ministry of Environment and Forest has issued notifications under the Environment (Protection) Act, 1986 in 1994, 1999 and 2006 prescribing the procedure with respect to environmental impact assessments for the commencement, expansion or modernization of industrial or mining operations. While the Environment (Protection) Act and associated notifications do not generally require environmental clearance to be obtained for electrification or for the construction of new transmission lines, such environmental clearance is mandated for certain areas in the districts of Alwar in Rajasthan and Gurgaon in Haryana. Approval under the Forest (Conservation) Act, 1980 is required when our transmission lines are to be constructed through forest areas.

We believe that in providing our services we must address rising expectations of a cleaner, safer, and healthier environment for everyone. In order to deal with environmental issues effectively, we have implemented a comprehensive policy known as the Environmental and Social Policy and Procedures ("**ESPP**"). We initially developed our ESPP in 1998, following broad consultation with government agencies at the national level, multilateral funding agencies, state utilities, non-governmental organisations and other stakeholders, including the public through public meetings. The ESPP was updated in 2005 and again in 2009 in order to address new enactments, requirements, guidelines and practices.

The ESPP is based on the principles of avoidance, minimisation and mitigation. It outlines our approach and commitment to deal with environmental and social issues relating to our transmission projects. The ESPP lays out management procedures and protocols to mitigate environmental and social concerns. The ESPP provides a framework for the identification, assessment and management of environmental and social concerns at both organisational and project level. At the project level, the ESPP is behind our efforts to reduce transmission corridor requirements by using multi-circuit and compact towers and to limit the number of trees removed by using higher towers. The ESPP spells out its commitment to ensure total transparency through a well defined public consultation process as well as the dissemination of relevant information about a project at every stage of its implementation.

When we obtain loans from multilateral funding agencies we are required to comply with their environmental safeguard policies, along with the policies statutorily mandated by the country in which we are operating. We have had our environmental policies recognised by the World Bank, which has selected our ESPP as the first candidate for "Use of Country Systems" in India. Our selection by the World Bank has reduced transaction costs and simplified obtaining loans by eliminating prior bank approval of environmental and social assessment reports.

We are audited for Social Accountability System, SA 8000:2008 for all our establishments, which ensures that we comply with a standard based on international human rights norms and national labour laws that will protect and empower all personnel within our company's scope of control and influence, who produce products or provide services for us, including personnel we employ, as well as by our suppliers and subcontractors.

**Corporate Social Responsibility**

Along with addressing rehabilitation and resettlement issues through our ESPP, we formulated a CSR policy that addresses the issue of community development in the vicinity of our offices and substations where the resettlement and rehabilitation activities under the ESPP have been completed and closed. Effective in Fiscal 2010, we intend to invest each year in furtherance of our CSR initiatives an amount equivalent to 1% of our net profit after tax from the previous year.

In line with this policy, we have taken up various activities addressing socio-economic issues of affected persons. We currently work in the areas of infrastructure, education, community health, tribal welfare, arts, culture, heritage and vocational training.

A major portion of CSR our initiatives was focused on the development of physical infrastructure in villages in the vicinity of our offices and substations. In the six months ended September 30, 2010 and Fiscal 2010 we spent ₹ 24.8 million and ₹ 42.9 million, respectively, on CSR activities including the construction of class rooms, libraries and computer rooms for schools, primary health care centers, drinking and sanitation facilities, check dam and drainage infrastructure, roads, street lights, bus shelters and community centers. These facilities were established to have long lasting value and have multiplier effect on improving the standard and quality of life of affected persons.

**INSURANCE**

We maintain a self-insurance scheme to cover ourselves against a substantial portion of our business risks. Under this scheme, we contribute an amount equal to 0.1% of our gross block of assets (except for valve halls of HVDC bi-pole, HVDC equipment, SVC substations and series compensators) each year into a self insurance reserve that we account for under our reserves and surplus. In Fiscal 2010, our self insurance reserve stood at ₹ 2,334.1 million. As at September 30, 2010, our self-insurance reserve was ₹ 2,527.9 million. We also maintain insurance policies with outside insurers in respect of risks to certain critical equipment and other selected risks. We insure our HVDC system and 765 kV substations under Industrial All Risks policies. We insure our load despatch centers against fire and special perils, theft and burglary. Certain of our telecom assets are insured against fire damage and others are insured against burglary and certain risks of theft. We have various other insurance policies, including policies against fire and certain risks of theft.

## COMPETITION

Currently, we are the dominant provider of interstate power transmission in India. We carried approximately 47.0% of the total power generated in India in Fiscal 2010 and we own and operate more than 95% of the ISTS.

Since 1998, the Indian power transmission sector has been open, as a matter of law and regulation, to possible investment by private entities, domestic and international, as transmission licensees. In 2000, the GoI issued guidelines for private sector investment in power transmission. Such investment was permitted either through a joint venture with our Company for the provision of interstate or inter-regional transmission services (with the tariff for the projects undertaken by such joint ventures to be formulated on a cost-plus basis), or in the form of an independent private transmission company ("**IPTC**") (with the tariff for the projects undertaken by such IPTCs to be formulated based on competitive bidding). Thereafter, we invited expressions of interest from private parties in possible joint ventures, which has led to our joint venture enterprises with the Tata Power Company Limited, Jaiprakash Power Ventures Limited, Torrent Power Generation Limited and others. We have facilitated formation of two IPTCs which are owned by Reliance Power Transmission. In April 2006, the GoI issued tariff-based competitive bidding guidelines for transmission services and also issued guidelines for encouraging competition in the development of transmission projects.

In our view, the need for power transmission in India is sufficiently extensive that the emergence of competitive bidding for some projects and the involvement of private entities in projects are likely to be of benefit to the country and unlikely to create material competitive disadvantages for us. Nevertheless, there can be no assurance that increased competitive bidding or increased private participation will not have a material adverse effect on us. Some large Indian business houses already have a presence in the Indian power sector, and may seek to expand their operations in the transmission sector. The transmission sector could also attract increased investment from international companies.

Competition in the transmission sector depends on the size, nature and complexity of the project and the geographic region in which the project is being executed. While service quality, technical capability, health and safety history, availability of qualified personnel, as well as reputation and experience are important considerations, price is the major factor in most tender awards. Further, size, scheduling and complexity of certain large scale projects preclude participation by smaller and less sophisticated companies that operate in our industry. Our primary competitors include Reliance Power Transmission, Energy Infratech, and Kalpataru Power Transmission.

Our consultancy business is subject to competition from various competitors in India and abroad. We are generally awarded our domestic consultancy projects without a competitive bidding process. Our primary domestic competitors include KEC International Limited, Larsen & Toubro, Kalpataru Power Transmission Limited, Gammon India Limited, ABB India, Areva T&D and Siemens. Most of our international projects are awarded on a competitive bidding process. Our primary international competitors include Lahmeyer International Gmbh, Fichtner GmbH & Co, KEMA Inc., Energy Services Limited and SMEC International Pty Limited.

In our telecommunication business, we are subject to broad and intense competition for the provision of telecom bandwidth services, particularly from telecom companies with geographically extensive networks. Competition is expected to intensify in the telecommunications services industry in India and there may also be increasing competition from global players. We expect competition to intensify further as new entrants emerge in the industry due to available growth opportunities, as companies in other industries try to expand into the telecommunications services industry and as existing competitors seek to expand their services. Further, consolidation among our competitors may also leave us at a competitive disadvantage. Our primary competitors include Bharti Airtel, Tata Communications Limited, Railtel and Tulip Telecommunication, and most of our competitors are also our customers.

**RIGHTS OF WAY, LAND AND BUILDINGS**

We do not acquire the land under transmission lines and towers as per the provisions of the Electricity Act and rules framed pursuant to G.S.R. 217(E) notified under section 67 of the Electricity Act. Rather, once we have determined the preferred route for our new transmission line, we exercise powers delegated to us under the law to establish a right of way and then begin construction. Under the provisions of the Electricity Act, all damage caused in the construction of the transmission lines is required to be compensated. In case of resistance, we can approach local authorities to take appropriate enforcement action and to obtain resolution.

The land for sub-stations is acquired by the GoI or the concerned state governments under the provisions of the Land Acquisition Act, 1894 and is thereafter awarded to us under the provisions of this Act. In some instances the land acquisition procedures prescribed under the Land Acquisition Act, 1894 are yet to be completed so as to provide us with clear and absolute title to the relevant land. Furthermore, certain litigation and/or objections have been initiated with respect to some of these properties by the affected persons, primarily with respect to claims of enhancement of compensation for the land acquired, and are pending before various forums and courts in India. In addition, several of our immovable properties for our infrastructure and projects and our offices are owned or leased by us. However the conveyance deeds of certain of these properties will require certain formalities to be completed like adequate stamping and/or registration with the concerned authority, so as to get a clear title.

Our registered office is located at B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi – 110 016, India. Our corporate headquarters is located in Gurgaon. We have nine regional headquarters, located in nine major cities.

## REGULATIONS AND POLICIES IN INDIA

*The following description is a summary of certain sector-specific laws, regulations, and policies in India, which are applicable to our Company. The summary below is only intended to provide general information to Bidders and is neither designed nor intended to substitute for professional legal advice.*

### THE POWER SECTOR

"Electricity" is an entry in the Concurrent List of the Seventh Schedule to the Constitution of India. Therefore, State legislatures also have jurisdiction to legislate in the power sector, provided that the State enactment does not conflict with any Central enactment in this sector.

#### *The Electricity Act, 2003 ("Electricity Act")*

The Electricity Act was enacted by the Parliament, repealing the Indian Electricity Act, 1910 (which governed transmission, supply and use of electricity), the Electricity (Supply) Act, 1948 (which constituted statutory bodies at the Central, Regional and State levels to govern generation, transmission and distribution of electricity) and the Electricity Regulatory Commissions Act, 1998 (which constituted the Central and State Electricity Regulatory Commissions).

The Central Electricity Authority ("**CEA**") is constituted under the Electricity Act and consists of members appointed by the GoI. Among other functions, the CEA specifies technical standards for construction of electrical plants, electric lines and connectivity to the grid, grid standards for operation and maintenance of transmission lines, and conditions for installation of meters for transmission and supply of electricity, as well as advising the GoI on matters relating to the National Electricity Policy. The Electricity Act also provides for the constitution of a Central Electricity Regulatory Commission ("**CERC**") and State Electricity Regulatory Commissions ("**SERCs**"), or a Joint Commission by agreement between two or more State governments or, in respect of a union territory, between the Central Government and one or more State Governments. CERC's responsibilities include licensing and regulation of inter-State transmission of electricity, determination of tariff for inter-State transmission of electricity, and specifying and enforcing standards with respect to quality, continuity and reliability of service by transmission licensees. The Electricity Act vests SERCs with the responsibility to facilitate and promote efficient transmission, wheeling and inter-connection arrangements within their territorial jurisdiction. In addition, the Electricity Act constitutes an Appellate Tribunal for Electricity ("**ATE**") to hear appeals against orders of an adjudicating officer or the appropriate Commission under the Electricity Act.

The Electricity Act requires a person undertaking transmission, distribution or trading in electricity in any area in the territory of India to obtain a prior license for such activity. The Electricity Act also provides that the CTU or the STU is a deemed transmission licensee. The GoI may notify any Government company as a CTU. Similarly the State Government may notify the SEB or any Government company as STU. A person intending to act as a transmission licensee is required to forward a copy of the application to the CTU or STU, as the case may be, which sends its recommendations to the relevant Commission. The appropriate Commission may specify any general or specific conditions that may apply to a particular licensee or a class of licenses. A license granted under the Electricity Act continues in force for a period of 25 years. The relevant Commission may at any time, if public interest requires, alter the terms of the license or revoke the license as it thinks fit in accordance with the procedure prescribed in the Electricity Act. The Electricity Act empowers the relevant Commission to issue directions to licensees if necessary, and also prescribes a detailed procedure for the sale of the utilities of the licensee in the event the relevant Commission revokes the license. The Electricity Act prohibits a licensee from assigning its license or transferring its utility or any part thereof, by sale, lease, exchange or otherwise without the prior approval of the relevant Commission, or from undertaking any transaction to acquire the utility of any other licensee or merging its utility with the utility of any other licensee, without prior approval of the relevant Commission. The duties of a transmission licensee under the Electricity Act include building, maintenance and operation of an efficient inter/intra State transmission system, and providing non-discriminatory open access to its transmission system for use by any licensee or generating company on payment of transmission charges or to any consumer who has obtained open access from the relevant SERC on payment of transmission charges and a surcharge thereon in accordance with the Electricity Act. The Electricity Act requires every transmission licensee to comply with the technical standards of operation and maintenance of transmission lines, in accordance with grid standards specified by the CEA.

The Electricity Act provides for the establishment of the NLDC and the RLDC by the GoI. The NLDC and RLDCs are prohibited from trading in electricity and RLDCs are also prohibited from engaging in the business of generation or trading of electricity. RLDCs exercise supervision and control over the inter-State transmission system and their responsibilities include optimum scheduling and despatch of electricity in accordance with the contracts entered into with licensees or generating companies operating in the region, monitoring grid operations, keeping accounts of the quantity of electricity transmitted through the regional grid, exercising supervision and control over the inter-State transmission system, and carrying out real time operations for grid control and despatch of electricity within the region through secure and economic operation of the regional grid in accordance with the grid standards and grid code. The RLDC will be operated by a Government company or authority or corporation constituted under a Central enactment, as may be notified by the GoI. The CTU will operate the RLDC until such notification is issued. The concerned State Government is required to establish a State Load Despatch Centre ("**SLDC**") as an apex body to ensure integrated operation of the power system in a State, through supervision and control over the intra-State transmission system. The SLDC is required to comply with the directions of the RLDCs. The CTU is responsible for undertaking transmission of electricity through the inter-State transmission system, planning and coordination relating to inter-State transmission systems with specified authorities and stakeholders, development of an efficient and coordinated system of inter-State transmission lines for smooth flow of electricity from generating stations to load centres, and providing non-discriminatory open access to its transmission system for use by any licensee or generating company on payment of transmission charges and to any consumer on payment of transmission charges and a surcharge thereon in accordance with the Electricity Act.

The Electricity Act requires the CTU and STUs and every transmission licensee to provide mandatory non-discriminatory open access to their transmission and distribution systems for use by any licensee or generating company on payment of transmission charges and to any consumer on payment of transmission charges and a surcharge thereon in accordance with the Electricity Act. The Electricity Act provides certain principles in accordance with which the appropriate Commission will specify terms and conditions for determination of tariff. Under the Electricity Act, CERC is vested with the authority to determine the tariffs for inter-State transmission of electricity. A transmission licensee may with prior intimation to CERC or the SERC, as the case may be, engage in any business for optimum utilization of its assets, provided that a proportion of its revenues from such business be utilised for reducing its charges for transmission and wheeling.

***Tariff Regulations***

***a. Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009***

CERC notified Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009, which came into force on April 1, 2009 and are valid for a period of five years ("**Tariff Regulations**"). The Tariff Regulations apply in all cases where tariff for a generating station or a unit thereof (other than those based on non-conventional energy sources) and the transmission system is to be determined by CERC under section 62 read with section 79 of the Electricity Act. The Tariff Regulations provide that tariff be determined based on capital expenditure incurred duly certified by the auditors, or as projected to be incurred up to the date of commercial operation and additional capital expenditure incurred duly certified by the auditors or projected to be incurred during the tariff period. Applications for determination of tariff are required to be made in accordance with the CERC (Procedure for Making of Application for Determination of Tariff, Publication of the Application and other Related Matters) Regulations, 2004. The capital cost admitted by CERC after prudence check (to be carried out based on benchmark norms to be specified by CERC) will form the basis for determination of tariff. The Tariff Regulations provide that in cases where benchmark norms have not been specified, prudence check may include reasonableness of capital cost, financing plan, interest during construction, use of efficient technology, cost over-run and time over-run. Debt and equity amounts with respect to a project will be used to calculate interest on loan, return on equity, depreciation and foreign exchange variation. For projects declared under commercial operation on or after April 1, 2009, if equity deployed exceeds 30% of the cost then the equity in excess of 30% will be considered a normative loan. Where equity deployed is less than 30%, actual equity will be considered for determination of tariff. Tariff on inter-State transmission systems will comprise recovery of AFC consisting of interest on loan capital, depreciation, return on equity, operation and maintenance expenses and interest on working capital. The Tariff Regulations provide the basis for computation of each such factor. The return on equity is calculated on pre-tax basis at a base rate of 15.5% and in case of projects commissioned on or after April 1, 2009, an additional 0.5% will be allowed if the project is completed within the stipulated timeline, provided that in case an element of the transmission system is ready for regular service but is prevented from providing such service for reasons not attributable to the transmission licensee, its suppliers or contractors, CERC may approve the date of commercial operation prior to such element of the transmission system coming into regular service.

In case of existing projects, licensees may continue to provisionally bill beneficiaries or the long-term customers with the tariff approved by CERC and applicable as on March 31, 2009 for the period starting from April 1, 2009 until approval of the tariff by CERC. In the interim, their applications will be based on admitted capital cost including any additional capitalization admitted up to March 31, 2009 and estimated additional capital expenditure for the respective years of the tariff period 2009-2014.

The appropriate government may by order in writing for the purpose of placing of electric lines or electric plant for the transmission of electricity and for co-ordination of works, confer on any public officer, licensee or any other person to exercise all the powers vested in the Telegraph Authority under Part III of the Indian Telegraph Act, 1885.

***b. Central Electricity Regulatory Commission (Grant of Connectivity, Long-term Access and Medium-term Open Access in inter-State Transmission and related matters) Regulations, 2009***

CERC notified the Central Electricity Regulatory Commission (Grant of Connectivity, Long-term Access and Medium-term Open Access in inter-State Transmission and related matters) Regulations, 2009 (“**Connectivity Regulations**”) on August 7, 2009 with the objective to provide transmission products of different varieties, standardize procedures, define the timelines and ensure a level playing field among different categories of market players. The Connectivity Regulations provide for the procedures and requirements for obtaining connectivity to interstate transmission system, availing medium-term open access and availing long term access. Applications for the grant of connectivity or long-term access or medium-term open access will be made to the CTU.

Under the Connectivity Regulations, connectivity to interstate transmission system can be sought by any generating plant having installed capacity of at least 250 MW and any bulk consumer having at least a load of 100 MW. Thermal generating stations of 500 MW and greater and hydro generating stations or a generating station using renewable sources of energy of capacity of 250 MW and greater, other than a captive generating plant, are not required to construct dedicated lines to the point of connection and such stations are taken into account for coordinated transmission planning by the CTU and CEA. Further, medium term open access is available for any period exceeding three months but not exceeding three years and it will be provided on the basis of availability of transmission capacity in the existing transmission system. An entity who has been granted medium term open access can exit after giving a notice of 30 days and by paying transmission charges for the period of relinquishment or a period of 30 days, whichever is lesser.

Long term access can be availed for any period between 12 years to 25 years and might require construction of new transmission capacities for giving long term access which can be further extended by giving a notice of six months period. An exit option is available from the long term access without any financial liability if the access has been availed for at least 12 years and an advance notice is given at least one year before such exit.

An exit option can be exercised even before the period of 12 years at a notice of one year subject to payment of specified charges if it is likely that the transmission capacity being vacated will remain idle.

***c. Central Electricity Regulatory Commission (Sharing of Inter State Transmission Charges and Losses) Regulations, 2010***

CERC notified the Central Electricity Regulatory Commission (Sharing of Inter State Transmission Charges and Losses) Regulations, 2010 ("**Sharing of Charges and Losses Regulations**") on June 16, 2010. These regulations implement the point of connection method of sharing the cost of inter-state transmission services in India, replacing the present system of regional postage stamps. These regulations provide that the yearly transmission charges, revenue requirement on account of foreign exchange, rate variation, changes in interest rates etc. and the losses will be shared amongst the power stations that are regional entities as defined in the Indian Electricity Grid Code ("**IEGC**"); SEBs/STUs connected with ISTS; any bulk consumer directly connected with the ISTS, and any designated entity representing a physically connected entity stated above. All the users will be default signatories to the Transmission Service Agreement (TSA), which also requires these users to pay the point of connection charge, which covers the revenue of transmission licensees. The point of connection tariffs are based on load flow analysis and capture utilization of each network element by the users. These regulations also provide necessary mechanisms for billing, connection and other commercial matters. These regulations will come into force on January 1, 2011 for a period of five years therefrom.

***d. Central Electricity Regulatory Commission (Grant of Regulatory Approval for Execution of Inter-State Transmission Scheme to Central Transmission Utility) Regulations, 2010***

CERC notified the Central Electricity Regulatory Commission (Grant of Regulatory Approval for Execution of Inter-State Transmission Scheme to Central Transmission Utility) Regulations, 2010 ("**Inter-state Transmission Scheme Regulations**") on May 31, 2010. These regulations apply to any scheme proposed by a CTU for the development of inter-state transmission systems in consonance with the National Electricity Plan. The CTU may file an application before the Commission for regulatory approval of identified ISTS scheme, with a project inception report. The CTU will within seven days of making such an application, post the complete application on its website and publish a notice of the application in two leading national newspapers inviting objections/suggestions within a period of one month from the date of publication. The ISTS schemes will be evaluated on the basis of (i) need for the transmission scheme, i.e., technical justification, urgency and prudence of the investment; (ii) cost assessment and possible phasing of implementation; and (iii) a cost-benefit analysis to the users of the proposed ISTS Scheme. The Commission may either approve the ISTS scheme with such modifications, if required or reject the application or require the CTU to submit a fresh application with required particulars. The CTU will implement the transmission elements out of the approved ISTS scheme in accordance with the Connectivity Regulations. The tariff of the ISTS scheme will be borne by the users of the scheme and the transmission charges will be shared among the users based on the sharing methodology specified by the Commission from time to time.

*e. Central Electricity Regulatory Commission (Procedures for Calculating the Expected Revenue from Tariffs and Charges) Regulations, 2010*

CERC notified the Central Electricity Regulatory Commission (Procedures for Calculating the Expected Revenue from Tariffs and Charges) Regulations, 2010 on April 4, 2010. These regulations will apply in all cases where tariff other than those based on non-conventional energy sources is determined by the Commission. Every generating company or transmission licensee which has made an application for determination of tariff will submit information in the formats with respect to expected revenue from tariffs and charges determined by the Commission from time to time. The formats will be submitted annually under affidavit on or before November 30 of each year containing the financial position for the previous financial year, current financial year and the ensuing financial year. The Commission may adopt such procedures and issue such directions as may be considered necessary for the purpose of validation of data and analysis of the underlying assumptions of the data submitted by the generating company and transmission licensee under these regulations.

***Central Electricity Regulatory Commission (Regulation of Power Supply) Regulations, 2010***

CERC notified the Central Electricity Regulatory Commission (Regulation of Power Supply) Regulations, 2010 ("**Power Supply Regulations**") on September 28, 2010. The Power Supply Regulations apply to generating companies and transmission licensees ("**Regulating Entities**") in the event that the agreement between the Regulating Entity and the beneficiary includes a specific provision with respect to regulation of power supply in case of (i) non-payment of outstanding dues by the beneficiary, or (ii) any agreed payment security mechanism. In the event that the outstanding dues are not paid by the beneficiary to the Regulating Entity within 60 days from the date of service of the invoice, the Regulating Entity may serve a notice on the defaulting entity for reducing the drawl schedule or for withdrawal of open access to inter-state transmission system to such defaulting beneficiary. Thereafter, within three days of receiving the notice, the concerned state load despatch centre/RLDC, in whose control area the defaulting entity is situated, shall make a plan in writing for implementing the regulation of power supply in such a manner that the amount of reduction in drawl schedule will progressively increase in quantum in accordance with the notice given by the Regulating Entity. The defaulting entity must restrict its drawl to the revised schedule and deviations, if any, will be subjected to unscheduled inter-change charges. The generating company is entitled to sell the surplus power made available by the restricted drawl entitled to the defaulting entity to any person in the open market. The amount received from the sale of surplus power will be adjusted against the outstanding dues of the defaulting entity. Further, the transmission licensee may request the RLDC to curtail the medium term open access or long term open access of the power supply to the defaulting entity.

***National Electricity Policy***

The GoI notified the National Electricity Policy ("**NEP**") on February 12, 2005, under Section 3 of the Electricity Act. The key objectives of the NEP are stipulating guidelines for accelerated development of the power sector, providing supply of electricity to all areas and protecting interests of consumers. The NEP vests the CTU and the STUs with the responsibility for transmission system planning and development on the national and regional and the intra-State levels, respectively, and requires the CTU to coordinate with the STUs for eliminating transmission constraints in a cost-effective manner. The NEP provides that the network expansion be planned and implemented keeping in view anticipated transmission needs that would be incident on the system in the open access regime. The NEP encourages private investment in the transmission sector, and states that prior agreement with beneficiaries would not be a pre-condition for network expansion and the CTU and

STUs should undertake network expansion after identifying requirements in consultation with stakeholders and obtaining due regulatory approvals.

***Tariff Policy***

The GoI notified the Tariff Policy on January 6, 2006 (as amended), under section 3 of the Electricity Act, to guide CERC and the SERCs in discharging their functions. The Tariff Policy seeks to achieve optimal development of the transmission network and attract investments in the transmission sector, and to balance interests of consumers and the need for investments while laying down the rate of return, which should attract investments at par with, if not in preference to other sectors such that the electricity sector is able to create adequate capacity. The Tariff Policy requires CERC to determine the rate of return on equity keeping in view the overall risk and prevalent cost of capital, and to establish norms for capital and operating costs, operating standards and performance indicators for transmission lines at different voltage levels. The Tariff Policy provides that transmission charges under the national tariff framework be determined on MW per circuit kilometer basis, zonal postage stamp basis, or some other pragmatic variant, such that transmission system users share the total transmission cost in proportion to their respective utilization of the transmission system, and that transactions be charged on the basis of average transmission losses arrived at after appropriately considering distance and directional sensitivity, as applicable to relevant voltage levels. The Tariff Policy requires investment by transmission developers other than the CTU or an STU to be invited through competitive bids, provided that after a period of five years or when CERC is satisfied that the situation in India is appropriate, competitive bidding be extended in respect of projects to be developed by the CTU and STUs.

***Benchmark Norms for Capital Cost for 400/765 KV Transmission Lines***

The Tariff Policy provides that at the time of CERC allowing the total capital cost of a transmission project, CERC should ensure that the total capital cost is reasonable and, to achieve this objective, requisite benchmarks on capital costs should be evolved by CERC. Accordingly, CERC by its order (No. L-1/30/2010 – CERC) dated April 27, 2010, notified the benchmark norms in terms of requirement of regulation 7 of the Tariff Regulations. The benchmark norms prescribe the maximum and minimum cost per circuit kms for 400 KV and 765 KV transmission lines as per prescribed parameters.

***Benchmark Norms for Capital Cost for Sub-Stations associated with 400/765 KV Transmission System***

The Tariff Policy provides that at the time of CERC allowing the total capital cost of a transmission project, CERC should ensure that the total capital cost is reasonable and, to achieve this objective, requisite benchmarks on capital costs should be evolved by CERC. Accordingly, CERC by its order (No. L-1/36/2010 – CERC) dated June 16, 2010, approved the benchmark norms for capital cost for sub-stations associated with 400/765 KV transmission system, which will be taken into consideration while determining the capital cost as required under regulation 7 of the Tariff Regulations.

***Regulatory approval of CERC for development and execution of certain identified transmission systems for evacuation of power from various generation projects planned to be promoted by independent power producers ("IPPs")***

CERC by its order dated May 31, 2010, has given its regulatory approval under Regulation 24 read with Regulation 111 and 113 of Central Electricity Regulatory Commission (Conduct of Business) Regulations, 1999 and Central Electricity Regulatory Commission (Open Access in Inter-State Transmission) Regulations, 2004 to our Company for constructing nine transmission corridors across the country with an envisaged investment of about ₹ 580,000 million. The CERC order dated May 31, 2010 provides for our Company to ensure the execution of evacuation systems required in connection with grant of long term open access to a group of developers for the following High Capacity Power Transmission Corridors ("**HCPTCs**") for 48 IPPs:

1. Transmission system associated with Phase - I generation projects in Odisha;
2. Transmission system associated with IPP projects in Jharkhand;
3. Transmission system associated with IPP projects in Sikkim;
4. Transmission system associated with IPP projects in Bilaspur complex, Chhattisgarh and IPPs in Madhya Pradesh;
5. Transmission system associated with IPP projects in Chhattisgarh;
6. Transmission system associated with IPP projects in Krishnapatnam area, Andhra Pradesh;
7. Transmission system associated with IPP projects in Tuticorin area, Tamil Nadu;
8. Transmission system associated with IPP projects in Srikakulam area, Andhra Pradesh; and
9. Transmission system associated with IPP projects in southern region of the country for transfer of power to other regions.

Additionally, the order provides that, *inter alia*, (i) prior agreement with the users would not be a precondition for network expansion by our Company after identifying the requirements in consonance with the National Electricity Plan and in consultation with the stakeholders, subject to receipt of due regulatory approvals; (ii) the nine proposed transmission systems are required to be implemented within time frames matching with the commissioning schedules of the IPPs so that the beneficiaries are not burdened with higher infrastructural development charge; (iii) transmission charges and its sharing by constituents will be determined by CERC in accordance with applicable regulations on terms and conditions of tariff as specified by CERC from time to time.

**TELECOMMUNICATIONS SECTOR**

The Department of Telecommunications ("**DoT**") of the Ministry of Communications and Information Technology, GoI, is responsible for formulating and enforcing telecommunication policies, regulations and technical standards, granting telecommunications service licenses, supervising operations and quality of service of telecommunication service provider and maintaining fair market competition among service providers.

***Indian Telegraph Act, 1885 ("Indian Telegraph Act")***

The Indian Telegraph Act is the principal legislation regulating telegraphs, which include any appliance, instrument, material or apparatus used or capable of use for transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature by wire, visual or other electro-magnetic emissions, radio waves or hertzian waves, galvanic, electric or magnetic means. Under the Indian Telegraph Act, the GoI has the power to grant licenses on such conditions and in consideration of such payments as it thinks fit, to any person to establish, maintain or work a telegraph in any part of India. The GoI also has the power to make rules applicable to persons licensed under the Indian Telegraph Act, including rules specifying the rates and other conditions subject to which messages will be transmitted within India, conditions subject to which any telegraph line or appliance of apparatus for telegraphic communication will be established, maintained, worked, repaired, transferred, shifted, withdrawn or disconnected, charges in respect of any application for providing any telegraph line, appliance or apparatus, charges in respect of (i) the establishment, maintenance, working, repair, transfer or shifting of any telegraph line, appliance or apparatus; and (ii) the services of operators operating such line, appliance or apparatus, and the time, manner and conditions under which and the persons by whom such rates, charges and fees will be paid and the furnishing of security for the payment of such rates, charges and fees. The GoI may, at any time, revoke any license granted under the Indian Telegraph Act, on the breach of any of the conditions contained therein, or in default of payment of any consideration payable thereunder. All disputes between the telegraph authority and the licensee will be settled through arbitration. The arbitrator will be appointed by the Central Government. The award of the arbitrator will be conclusive between the parties to the dispute and will not be questioned in any court.

***Wireless Telegraphy Act, 1993(“Wireless Telegraphy Act”)***

The Indian Wireless Telegraphy Act regulates the possession of wireless telegraphy apparatus and prohibits possession of wireless telegraphy apparatus without licence. The Central Government may, by rules made under the Wireless Telegraphy Act, exempt any person or class of persons from this requirement either generally or subject to prescribed conditions, or in respect of specified wireless telegraphy apparatus. The telegraphy authority constituted under the Indian Telegraph Act, 1885, is the competent authority to issue licences to possess wireless telegraphy apparatus, and may issue licences in such manner, on such conditions and subject to such payments, as may be prescribed. The Wireless Telegraphy Act provides penalty for possession of any wireless telegraphy apparatus, other than a wireless transmitter, in contravention of the Wireless Telegraphy Act. The Wireless Telegraphy Act further provides that no license issued under this Act authorizes any person to do anything for which a license or permission under the Indian Telegraph Act is necessary.

***The Telecom Regulatory Authority of India Act, 1997 (“TRAI Act”)***

TRAI Act provides for the establishment of the Telecom Regulatory Authority of India (“**TRAI**”) to regulate the telecommunication services industry. The TRAI Act also provides for the constitution of the Telecom Disputes Settlement and Appellate Tribunal (“**TDSAT**”), the adjudicatory body in this sector. The functions and responsibilities of TRAI include making recommendations to the GoI in connection with matters such as the need and timing for introduction of new service providers, specifying the terms and conditions of licenses issued to service providers and revocation of licenses for non-compliance with stipulated conditions, ensuring compliance with conditions of licenses, regulating revenue sharing arrangements among service providers, specifying standards of quality of service to be provided by service providers, ensuring effective compliance of universal service obligations (“**USO**”), and rendering advice to the GoI in matters relating to development of telecommunication technology and the telecommunication industry in general. Additionally, TRAI is empowered to specify the rates at which the telecommunication services within and outside India are provided. The provisions of the TRAI Act are in addition to the provisions of the Indian Telegraph Act and the Indian Wireless Telegraphy Act and will not affect any jurisdiction, powers and functions required to be exercised or performed by the authorities established under the aforesaid legislation in relation to any area falling within the jurisdiction of such authority.

***Interconnection Usage Charges Regulations, 2003 (“IUC Regulation”)***

The IUC Regulation, notified by TRAI with effect from December 1, 2003, supersede the earlier regulations dated January 24, 2003. The IUC Regulations regulate arrangements among service providers for payment of IUC for telecommunication services, covering basic services including wireless loop services, cellular mobile services, and long distance services throughout the territory of India, as well as international subscriber dialing. The charge payable by one service provider to one or more service providers for usage of the network elements for origination, transit or termination of the calls, is called the IUC. The IUC Regulations stipulate a single access deficit charge be paid to service operators by all basic, cellular, national long distance and international long distance service providers for origination, transit and termination of calls, in place of the multiple charges required to be paid under the previous regulations. Except in respect of roaming tariffs, TRAI has not, for the time being, notified any charge for a particular telecommunication service, and service providers are free to fix any charge for such service. TRAI has the right to periodically review and modify the IUC, *suo moto* or on reference from any affected party. The IUC Regulations propose that the access deficit charge regime be phased out and merged with the USO regime.

*TRAI Regulation on Quality of Service of Dial-Up and Leased Line Internet Access Service*

The TRAI Regulation on Quality of Service of Dial-Up and Leased Line Internet Access Service, 2001 requires all basic service operators and ISPs to maintain a certain grade and quality of service parameters. TRAI periodically measures network performance parameters including time to access, probability of access, ISP node unavailability, and grade of service, directly or through an independent agency appointed by it. TRAI is empowered to revise these parameters periodically.

*NLDO License Guidelines*

National long distance carriage of switched bearer telecommunications services beyond the respective service areas of private operators was opened for competition in January 2000, pursuant to which the DoT notified guidelines for the issue of licenses for the right to carry inter-circle traffic and to facilitate sharing of infrastructure (including passive infrastructure such as buildings, towers and fibre optic networks, as well as point-to-point bandwidth) between cellular and other telecom service providers in their areas of operation. Indian registered companies with a net worth of ₹ 25,000 million and paid up equity of ₹ 2,500 million are eligible to apply for a National Long Distance Operator ("**NLDO**") Licence. Total foreign equity in the applicant company is not permitted to exceed 74% at any time during the entire license period. The license for an NLDO is issued on a non-exclusive basis for a period of 20 years and is extendable by 10 years at a time. NLDO licences provide for certain customer verification requirements. Telecommunication service providers including NLDO licensees are required to pay a license fee to the GoI on a revenue sharing basis. Of the total revenue share license fees paid by operators to the GoI at present, 5% of adjusted gross revenue is allocated towards the USO for development of rural and remote areas.

*Intra Circle Merger Guidelines*

The DoT issued revised guidelines in April 2008, to replace the Intra-Circle Merger Guidelines issued on February 21, 2004 to facilitate intra-service area merger of Cellular Mobile Telephone Service ("**CMTS**")/Unified Access Service ("**UAS**") licenses. The guidelines provide that merger of licenses be restricted to the same service area, merger of license be permitted within certain categories of licenses and with prior approval of the DoT (provided that there be at least three operators in that service area for that service consequent on such merger), merger of license not be allowed if the number of UAS/CMTS access service providers fall below four in the relevant market and the market share of the merged entity in the relevant market exceeds 40%, and while granting permission for merger of licenses, the DoT may suitably amend, relax and/or waive the conditions in the respective license agreements dealing with 'substantial equity' requirements.

*Tariff Order*

TRAI had previously specified various ceilings and floor prices for most telecom services. Since the implementation of the IUC Regulation, telecommunications tariffs are regulated by TRAI through the Telecommunication Tariff Order, 1999 as amended by the Telecommunication Tariff (Thirty Sixth Amendment) Order 2005 ("**Tariff Order**") on the basis of transparency of tariffs, as well as the following underlying principles:

a) IUC consistent tariffs imply that the service provider be able to meet IUC expenses on a weighted average basis. The relevant weighted average should be of the service segment concerned;
b) Tariffs should be non-discriminatory. Different tariffs should not be charged for calls within the network and outside it when the calls are to the same service area; and
c) Non-predation is linked to the ability to pay IUC expenses while covering own costs.

*National Telecom Policy, 1994 ("National Telecom Policy")*

The National Telecom Policy announced by the DoT on March 26, 1999 with effect from April 1, 1999, in place of the National Telecom Policy 1994. Among other features, it requires all access providers, including cellular mobile telephone services providers, fixed telephone service provider and cable service providers, to provide interconnection to NLDOs.

*Broadband Policy*

The Broadband Policy was announced by the Ministry of Communications and Information Technology, GoI, in 2004. Among other features, it encourages the spread of optical fibre networks, permits access providers to enter into mutually agreed on commercial arrangements for utilization of available copper loop for expansion of broadband services, and provides that broadband service providers may franchise operations to cable television network providers.

**ENVIRONMENTAL LAWS**

The Environment (Protection) Act, 1986 ("**EPA**") vests the GoI with the power to take any measure it deems necessary or expedient for protecting and improving the quality of the environment and preventing and controlling environmental pollution, including the power to prescribe standards for emission of environmental pollutants or hazardous substances, inspection of any premises, plant, equipment or machinery, and examination of manufacturing processes and materials likely to cause pollution. There are also provisions with respect to furnishing of information to the authorities in certain cases, establishment of environment laboratories and appointment of Government analysts. The MoEF has issued notifications under the EPA in 1994, 1999 and 2006 (collectively, the "**EIA Notifications**"), prescribing the procedure with respect to environmental impact assessment for the commencement, expansion or modernization of industrial or mining operations. While the EPA and the EIA notifications do not generally require environmental clearance to be obtained for electrification and laying of new transmission lines, such environmental clearance is mandated in respect of certain areas in the districts of Alwar in Rajasthan and Gurgaon in Haryana.

Penalties for violation of the EPA includes fine upto ₹ 0.10 million or imprisonment of up to five years or both. Further, in case operations involve clearance of forest land, the Forest (Conservation) Act, 1980, as amended ("**Forest Conservation Act**") requires prior clearance of the GoI, through the MoEF. The penalties for non-compliance under the EPA and the Forest Act range from closure or prohibition of operations as well as monetary penalties on and imprisonment of the persons in charge of the conduct of the business of the company.

**LABOUR LAWS**

The Employees (Provident Fund and Miscellaneous Provisions) Act, 1952 as amended ("**EPF Act**") applies to factories employing over 20 employees and such other establishments and industrial undertakings as notified by the GoI from time to time. It requires all such establishments to be registered with the State provident fund commissioner, and requires such employers and their employees to contribute in equal proportion to the employees' provident fund the prescribed percentage of basic wages and dearness and other allowances payable to employees. The EPF Act also requires the employer to maintain registers and submit a monthly return to the State provident fund commissioner.

The Industrial Disputes Act, 1947 ("**ID Act**") provides the procedure for investigation and settlement of industrial disputes. When a dispute exists or is apprehended, the appropriate Government may refer the dispute to a labour court, tribunal or arbitrator, to prevent the occurrence or continuance of the dispute, or a strike or lock-out while a proceeding is pending. The labour courts and tribunals may grant appropriate relief including ordering modification of contracts of employment or reinstatement of workmen. The Industrial Disputes (Amendment) Bill 2010 passed by the Rajya Sabha on August 3, 2010, proposes to, among other things, provide direct access for workmen to labour courts or tribunals in case of individual disputes, expand the scope of qualifications of presiding officers of labour courts or tribunals, constitute grievance settlement machineries in any establishment having 20 or more workmen, and vest industrial tribunals-cum-labour courts with the powers of a civil court in respect of enforcement of their decrees.

The Workmen's Compensation Act, 1923 as amended ("**Workmen's Compensation Act**") requires an employer to pay compensation for personal injury or death due to such personal injury caused by accident during employment, except in certain cases for instance where such workman was at the time of injury under the influence of drugs or alcohol, or willfully disobeyed safety rules. On December 1, 2009, the Indian Parliament passed the Workmen's Compensation Amendment Bill, 2009, which proposed to expand the scope of the Workmen's Compensation Act beyond companies with at least 20 employees and to include clerical staff, raise monetary compensation payable in the event of death or permanent disability, and introduce reimbursement for treatment of injuries sustained in course of employment. On notification, the statute will be the Employee Compensation Act, 2010.

The Contract Labour (Regulation and Abolition) Act, 1970 ("**CLRA Act**"), regulates the employment of contract labour in establishments, and provides for ensuring welfare and health of contract labourers. The CLRA requires establishments that employ or employed on any day in the previous 12 months, 20 or more workmen as contract labour to be registered and prescribes certain obligations with respect to the welfare and health of contract labour. To ensure the welfare and health of the contract labour, the CLRA Act imposes certain obligations on the contractor in relation to establishment of canteens, rest rooms, drinking water, washing facilities, first aid, other facilities and payment of wages. However, if the contractor fails to provide these amenities, the principal employer is under an obligation to provide these facilities.

The Employees' State Insurance Act, 1948 ("**ESI Act**") provides for certain benefits to employees in case of sickness, maternity and employment injury. Every employee, who receives wages up to ₹ 10,000 per month, whether employed directly or through a contractor is entitled to be insured under the ESI Act. The ESI Act imposes an obligation imposed on the employer to make certain contributions in relation thereto. In addition, the establishment is also required to register itself under the ESI Act and maintain prescribed records and registers.

The Payment of Bonus Act, 1965 ("**Bonus Act**") is applicable on every establishment employing 20 or more employees. The Bonus Act provides for payment of bonus irrespective of profit and makes payment of minimum bonus compulsory to those employees who draw a salary or wage up to ₹ 10,000 per month and have worked for a minimum period of 30 days in a year. It further requires for the maintenance of certain books and registers and submission of annual return within 30 days of payment of the bonus to the Inspector.

The Minimum Wages Act, 1948 as amended ("**Minimum Wages Act**") provides for minimum wages in certain employments. The Central and the State Governments stipulate minimum wages, calculated based on the basic requirement of food, clothing and housing required by an average Indian adult.

## OTHER RELEVANT LEGISLATION

### *Trademarks Act, 1999 (the "Trademarks Act")*

In India, trademarks enjoy protection both statutory and under common law. The Trademarks Act as amended governs the registration, acquisition, transfer and infringement of trademarks and remedies available to a registered proprietor or user of a trademark. The registration of a trademark is valid for a period of 10 years and can be renewed in accordance with the specified procedure.

### *Competition Act, 2002 (the "Competition Act")*

The Competition Act aims to prevent anti-competitive practices that cause or are likely to cause an appreciable adverse effect on competition in the relevant market in India. The Competition Act regulates anti-competitive agreements, abuse of dominant position and combinations. The Competition Act, although enacted in 2002, is being brought into force in a phased manner. Provisions relating to anti-competitive agreements and abuse of dominant position were brought into force with effect from May 20, 2009 and thereafter the Competition Commission of India ("**Competition Commission**") became operational from May 20, 2009. Sections 5 and 6 (dealing with combinations, mergers and acquisitions) are yet to be notified, by the GoI.

Under the Competition Act, the Competition Commission has powers to pass directions / impose penalties in cases of anti-competitive agreements, abuse of dominant position and combinations. In the event of failure to comply with the orders or directions of the Competition Commission, without reasonable cause, such person is punishable with a fine extending to ₹ 0.1 million for each day of such non-compliance, subject to a maximum of ₹ 100.0 million. If there is a continuing non-compliance the person may be punishable with imprisonment for a term extending up to three years or with a fine which may extend up to ₹ 250.0 million or with both as the Chief Metropolitan Magistrate, Delhi may deem fit. In case of offences committed by companies, the persons responsible for the conduct of the business of the company will be liable under the Competition Act, except when the offence was committed without their knowledge and they had exercised due diligence to prevent it. Where the contravention committed by the company took place with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such person is liable to be punished. The Competition Act also provides that the Competition Commission has the jurisdiction to inquire into and pass orders in relation to an anti-competitive agreement, abuse of dominant position or a combination, which even though entered into, arising or taking place outside India or signed between one or more non-Indian parties, but causes an appreciable adverse effect in the relevant market in India. The Lok Sabha has passed a bill to transfer the pending monopolies and restrictive trade practices cases under the Consumer Protection Act, 1986 to the Competition Appellate Tribunal. Once this bill is notified the Competition Appellate Tribunal will take up the pending cases of unfair trade practices under the Consumer Protection Act, 1986. This bill will replace the ordinance which was introduced on October 14, 2009 to make the Monopolies and Restrictive Trade Practice Commission non functional.

### *Foreign Direct Investment*

Under India's Consolidated FDI Policy, effective from October 1, 2010, issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, GoI, foreign direct investment ("**FDI**") in the power sector is in the 100% automatic route, requiring no approval from the Foreign Investment Promotion Board ("**FIPB**"). For infrastructure providers in the telecommunications sector, providing dark fibre, right of way, duct space and tower infrastructure (IP Category I), FDI up to 49% is in the automatic route and beyond 49% is permitted with the FIPB's prior approval, provided that the applicant is compliant with the terms of its license agreement.

# HISTORY AND CERTAIN CORPORATE MATTERS

In 1980 the Rajadhyaksha Committee on Power Sector Reforms submitted its report to the GoI suggesting extensive reforms in the Indian power sector. Based on the recommendations of the Rajadhyaksha Committee, in 1981 the GoI took the policy decision to form a national power grid which would pave the way for the integrated operation of the central and regional transmission systems.

Pursuant to this decision to form a national power grid, our Company was incorporated on October 23, 1989 under the Companies Act, 1956 as 'National Power Transmission Corporation Limited', with the responsibility of planning, executing, owning, operating and maintaining the high voltage transmission systems in the country. We received a certificate for commencement of business on November 8, 1990. The name of our Company was changed to its present name 'Power Grid Corporation of India Limited' and a fresh certificate of incorporation was issued on October 23, 1992. The name of our Company was changed to its present name from 'National Power Transmission Corporation Limited' as its then abbreviated form, 'NPTC Limited', had close resemblance to another existing company, namely, NTPC Limited ("**NTPC**").

As on September 30, 2010, the total number of holders of Equity Shares of our Company is 792,096. Our Company is presently listed on the BSE and the NSE.

For further information on our business including description of our activities, services, market of each segment, our growth, technology, market, managerial competence and capacity build-up, our standing with reference to our prominent competitors, see "***Our Business***" and "***Industry Overview***" on pages 82 and 70, respectively.

Our Company is not operating under any injunction or restraining order.

*Transfer of transmission assets from generating units*

Initially, our Company was engaged in the management of the transmission assets owned by the central generating companies such as the NTPC, NHPC Limited ("**NHPC**") and North-Eastern Electric Power Corporation Limited. In January 1993, the National Thermal Power Corporation Limited, the National Hydro Electric Power Corporation Limited and the North-Eastern Electric Power Corporation Limited (Acquisition and Transfer of Power Transmission Systems) Ordinance, 1993 ("**Power Transmission Systems Ordinance**") was enacted pursuant to which the right, title and interest of these three power generating companies in relation to the power transmission system, comprising the main transmission lines, including the extra high voltage alternative current transmission lines and the HVDC lines, and sub-stations, owned by them, were acquired by the GoI and transferred to our Company, with effect from April 1, 1992. Under the Power Transmission Systems Ordinance, our Company acquired all the rights, liabilities, assets, leaseholds, powers, authorities and privileges and all movable and immovable property relating to the power transmission systems owned by the three generating companies. The Power Transmission Systems Ordinance also provided that all employees of the three generating companies who were associated with power transmission systems would be deemed to be the employees of our Company. In April 1993, the Power Transmission System Ordinance became a statute after receiving the assent of the President of India.

Transmission assets of Neyveli Lignite Corporation Limited were taken over by our Company with effect from April 1992 under the Neyveli Lignite Corporation Limited (Acquisition and Transfer of Power Transmission System) Act, 1994. The transmission assets of Nuclear Power Corporation Limited and Tehri Hydro Development Corporation Limited have also been transferred to our Company with effect from April 1991 and August 1993, respectively, pursuant to memorandum of understandings executed with our Company.

*National and Regional Load Despatch Functions*

In 1994, the GoI entrusted our Company with the further responsibility of controlling the existing load despatch centres in the country with a view to achieve better grid management and operation. Pursuant to this decision, the control of the five regional load despatch and communication centres was transferred to our Company in a phased manner between 1994 and 1996. Our Company has undertaken the ULDC and communication project ("**ULDC Project**") under which modernized load despatch facilities have been established in each of the five regional centres. The implementation of the ULDC Project has, amongst other things, caused the reduction of grid disturbances, improved grid reliability and facilitated the effective implementation of availability based tariff. On February 25, 2009, the NLDC was inaugurated. The NLDC is responsible for monitoring the operations and grid security of the national grid and supervises the scheduling and despatch of electricity over inter-regional lines in coordination with the RLDCs. Our wholly-owned subsidiary, POSOCO, was established in March 2009 to oversee the grid management function of our operations and commenced operations in March 2010. We are in the process of transferring the movable assets of our power system operations segment to our subsidiary with effect from October 1, 2010.

*Designation as the CTU*

Our Company was notified as the Central Transmission Utility by the GoI on December 31, 1998. We continue to be the CTU under the Electricity Act as per the notification issued by the GoI on November 27, 2003. Amongst other functions, as CTU we are required to (a) undertake transmission of electricity through the inter-state transmission system; (b) discharge all functions of planning and co-ordination relating to inter-state transmission systems, with certain specified authorities and stakeholders; (c) ensure development of an efficient, coordinated and economical system of inter-state transmission lines for smooth flow of electricity from generating stations to load centres; and (d) provide non-discriminatory open access to its transmission system for use by any licensee or generating company on payment of transmission charges and to any consumer on payment of transmission charges and a surcharge thereon in accordance with the Electricity Act.

Under the Electricity Act, the CTU is required to undertake the functions of the RLDC and we are therefore responsible for (a) optimum scheduling and despatch of electricity within the region, in accordance with the contracts entered into with the licensees or the generating companies operating in the region; (b) monitor grid operations; (c) keep accounts of quantity of electricity transmitted through the regional grid; (d) exercise supervision and control over the inter-state transmission system; and (e) carrying out real time operations for grid control and despatch of electricity within the region through secure and economic operation of the regional grid in accordance with the grid standards and grid code.

However, the National Electricity Policy states that the existing arrangement of CTU operating the RLDCs will be reviewed by the GoI based on the experience of working with the existing arrangement.

*Navratna Company*

On May 1, 2008, our Company was notified as a Navratna company by the GoI, through notification (DPE OM No. 26(3)/2005-GM-GL-92). As a Navratna company, we are eligible for enhanced delegation of powers to our Board, including (a) power to incur capital expenditure without governmental approval; (b) ceiling on equity investment to establish financial joint ventures and wholly owned subsidiaries in India or abroad will be 15% of the net worth of our Company in one project limited to ₹ 10,000 million and the overall ceiling on such investments in all projects put together will be 30% of the net worth of our Company; (c) power to enter into merger and acquisitions subject to certain conditions; and (d) the Board has the power to further delegate the powers relating to human resource management (appointments, transfers, postings etc,) of below Board level executives to sub-committees of the Board or to executives of our Company as may be decided by the Board.

*Role in distribution reforms and rural electrification*

In 2001, our Company was assigned the role of an advisor-cum-consultant, by the GoI, for implementation of the APDRP in 18 states in India. The objective of the APDRP is to give impetus to reforms in the power distribution sector and the responsibility of our Company extends to providing assistance to SPUs in formulation of DPR, to technically examine the DPRs and recommend them to the MoP and to monitor the implementation of the schemes, the commercial performance and reform measures undertaken by the SPUs in the assigned geographical areas. We undertook the implementation of distribution improvement schemes in the states of Bihar, Uttar Pradesh, Goa, Gujarat, Tripura and Meghalaya on a deposit work basis. Our participation in APDRP concluded in March 2009.

Additionally, our Company has been assigned a significant role in relation to implementation of projects under the Rajiv Gandhi Grameen Vidyutikaran Yojana programme ("**Rural Electrification Programme**") for accelerated electrification of rural households to be undertaken in association with REC, the concerned state government and state power utility. For more information, see "***Our Business***" on page 82.

**Change in our Registered Office**

The registered office of our Company was changed on July 29, 1998 from Hemkunt Chambers, 89, Nehru Place, New Delhi 110 019, India to its present location at B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi 110 016, India, for administrative and operational efficiency.

**Major events**

In addition to events described hereinabove, the following table illustrates the major events in the history of our Company since its incorporation in 1989.

| Fiscal | Event |
|---|---|
| 1989 | Our Company was incorporated as 'National Power Transmission Corporation Limited'. |
| 1991 | Transmission assets from Nuclear Power Corporation Limited were transferred to our Company pursuant to a memorandum of understanding executed between the parties. |
| 1992 | Transmission assets from NTPC, NHPC and North-Eastern Electric Power Corporation Limited were transferred to our Company pursuant to legislation promulgated by the Parliament. |
| | The name of our Company was changed from 'National Power Transmission Corporation Limited' to 'Power Grid Corporation of India Limited'. |
| 1993 | Transmission assets of Tehri Hydro Development Corporation Limited were transferred to our Company pursuant to a memorandum of understanding executed between the parties. |
| 1994 | Our Company took over the management of the Southern Regional Load Despatch Centre. |
| | Our Company entered into a memorandum of understanding with the MoP, which is revised annually. We achieved the highest rating of 'Excellent' under the memorandum of understanding. |
| | Transmission assets from Neyveli Lignite Corporation Limited were transferred to our Company pursuant to legislation promulgated by the Parliament. |
| 1995 | Our Company took over the management of the Eastern Regional Load Despatch Centre and the North Eastern Load Despatch Centre. |
| 1996 | Our Company took over the management of the remaining two regional load despatch centres, namely, the Northern Regional Load Despatch Centre and the Western Load Despatch Centre. |
| 1998 | Our Company formulated an Environment and Social Policy and Procedures Code to deal with environmental and social issues relating to its transmission projects. |
| | Our Company was formally notified as a CTU by the GoI. |

| Fiscal | Event |
|---|---|
| | Our Company was declared as a Mini Ratna Category I public sector undertaking by the GoI. |
| 2001 | Our Company was granted Infrastructure Provider II license (IP II) from the Department of Telecommunications, GoI to pursue leasing of bandwidth capacity to various customers on its telecommunications network. |
| 2002 | The unified load despatch and communications schemes for the northern and southern regions were commissioned. |
| | Our Company was appointed as the Advisor-cum-Consultant under the APDRP by the MoP for power sector reforms. |
| | The Sasaram HVDC back to back transmission system developed by our Company was commissioned leading to the completion of the first phase of the construction of the National Grid. |
| | The 2,000 MW Talchar-Kolar bipolar HVDC link developed by our Company was commissioned. |
| 2003 | Our Company entered into a joint venture arrangement with The Tata Power Company Limited implementing a part of the entire transmission system associated with Tala Hydro-Electric Project which was the first public-private sector initiative in the transmission sector. |
| | The 400 KV Raipur-Rourkela line transmission line developed by our Company was commissioned and the Western region, Eastern Region and North-Eastern Region begin operating in a synchronized manner with a cumulative capacity of 50,000 MW. |
| | Our Company secured its first international consultancy contract from Bhutan Telecommunications. |
| 2005 | The unified load despatch and communications scheme for the eastern region was commissioned. |
| 2006 | The unified load despatch and communications scheme for the western region was commissioned. |
| | Our Company entered into an agreement with REC and certain state governments and state utilities for undertaking rural electrification works under the Rajiv Gandhi Grameen Vidyutikaran Yojana in nine states in India. |
| 2007 | Dedication of transmission system associated with Tala Hydro-Electric Project which was the first public-private sector initiative in the transmission sector by the Prime Minister Dr. Manmohan Singh. |
| | Listing of our Equity Shares on the Stock Exchanges. |
| 2008 | Our Company was declared as a Navratna public sector undertaking by the GoI. |
| | The 220 KV Double Circuit Transmission line from Pul-e-Khumri to Kabul Transmission System in Afghanistan was completed. |
| 2009 | The National Load Despatch Centre was established. |
| | Our Subsidiary, Power System Operation Corporation Limited, was incorporated |
| | Our Company was mentioned as the world's third largest transmission utility by a news release issued by the World Bank |
| 2010 | Our Company was selected as a consortium member to implement the National Knowledge Network Project, a telecommunication infrastructure project. |
| | Commissioning of the commercial operations of the National Load Despatch Centre. |
| | Commissioning of the 220/110/20 KV Chimtala sub-station at Kabul, Afghanistan. |
| 2011 | Our Company entered into an MoU with Jamia Millia Islamia University for the training and certification of its System Operators in Supervisory Control And Data Acquisition (SCADA) technology. |

For more information on our Company's capital raising activities through equity and debt, see "***Capital Structure***", "***Financial Indebtedness***" and "***Other Regulatory and Statutory Disclosures***" on pages 32, 282 and 355, respectively.

**Certifications, Awards and Recognitions**

We have received the following certifications, awards and recognitions for achieving and maintaining high standards in various aspects of our business.

| Year | Certification/ Award |
|---|---|
| 1993-1994 to present | Our Company has received the 'Excellent' rating under the memorandum of understanding with the MoP since 1993-1994. |
| 1998-2001 and | Our Company was awarded the MoU Excellence Award. |

| Year | Certification/ Award |
|---|---|
| 2003-08 | |
| 2000-2001 | Our Company was awarded the Indo-German Greentech Environment Excellence Award for implementation of Environment and Social Policy and Procedures and green belt development. |
| 2004 | Our Company was awarded the Golden Peacock National Quality Award (Runners Up) in relation to quality standards. |
| | Our Company was certified to operate an integrated management system which complies with the requirements of BS EN ISO 9001:2000, BS EN ISO 14001:1996 and OHSAS 18001:1999 standards in relation to quality, environment and occupational health and safety standards respectively with respect to design, engineering, procurement, construction, operation and maintenance activities for transmission systems up to 800 KV, HVDC, Supervisory Control and Data Acquisition (SCADA), Energy Management Systems and Communication Projects. |
| 2006 | Our Company was awarded the Green Award 2006 by the World Bank with respect to the Powergrid System Development Project II for commitment in the field of environmental sustainability. |
| | The Eastern and North Eastern region of our Company were awarded the prize for the best transmission system availability under Category I and Category II, respectively for the year 2004-05. |
| 2007 | Our Company was certified for PAS 99:2006 integrating the requirement of ISO 9001:2000 for quality, ISO 14001:2004 for environment management and OHSAS 18000:1999 for health and safety management systems. |
| 2008 | Our Company was recognised for its meritorious performance by the MoP for the year 2006-07 and won a Gold Shield for the 132KV transmission system in the North Eastern region and a Silver Shield for the 220KV and 400KV transmission system in the Western region. |
| 2009 | Our Company was awarded First Prize at IEEMA Power Awards 2009 ceremony for 'Excellence in Power Transmission' by NDTV Profit. |
| | Our Company was recognised for its meritorious performance by the MoP for the year 2007-08 and won a Gold Shield for the transmission system at North Eastern region, a Silver Shield for the transmission system at the Western region and a Silver Shield for the early completion of the transmission project in Southern region I. |
| | Our Company was awarded the All India Organization of Employers Industrial Relations Award 2007-08 by the Ministry of Labour, GoI. |
| | Our Company was awarded 'Gold' trophy under the institutional category in SCOPE excellence awards for the year 2008-2009. |
| | Our Company was awarded the 'Star' Public Sector Company Award for 2007-08 by Business Standard. |
| | Our Company was awarded the Overall Utility Performance in Transmission Segment Award for 2008-09 by KW Conferences in association with Council of Power Utilities. |
| | Our Company was featured in the list of top 250 global energy companies compiled by Platts, a leading provider of energy and commodities information. Our Company was also named amongst the fastest growing global energy companies ranking for 2009 issued by Platts. |
| | Our Company won the 'Emerging Telecom Infrastructure Provider' Award at the INFOCOM CMAI National Telecom Awards 2009. |
| | Our Company received a Certificate of Merit by the International Federation of Training and Development Organizations, Canada at the Global Human Resource Development Awards, 2009. |
| 2010 | Our Company received three Gold Shields for the transmission system availability of Western region – I, of North Eastern region and for the early completion of 220 KV D/C Pul-e-Khumri to Kabul transmission line in Afghanistan; a Silver Shield for the system availability at the Easter region – I, in the National Awards for Meritorious Performance in Power Sector 2008-09 awarded by the MoP. |
| | Our Company is certified with Integrated Management System (IMS) as per Publicly Available Specification, PAS 99:2006 integrating requirement of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007. Our Company is also certified with SA |

| Year | Certification/ Award |
| --- | --- |
| | 8000:2008 for its Social Accountability System. |
| | Our Company won the "Award for best HR strategy in line with business" by Asia's best employer brand awards. |

**Our Main Objects**

Our main objects as contained in our Memorandum of Association are:

1. To plan, promote and develop an integrated and efficient power transmission system network in all its aspects including planning, investigation, research, design and engineering, preparation of preliminary, feasibility and definite project reports, construction, operation and maintenance of transmission lines, sub-stations, load despatch stations and communication facilities and appurtenant works, coordination of integrated operation of regional and national grid system, providing consultancy services in power systems field, execution of turnkey jobs for other utilities/organizations, wheeling of power, purchase and sale of power in accordance with the policies, guidelines and objectives laid down by the Central Government from time to time.

2. To act as an agent of Government/Public Sector Financial institutions, to exercise all the rights and powers exercisable at any meeting of any company engaged in the planning, investigation, research, design and preparations of preliminary, feasibility and definite project reports, manufacture of power plant and equipment, construction, generation, operation and maintenance of power transmission system from power generating stations and projects, transmission, distribution and sale of power in respect of any shares held by the Government, public financial institutions, nationalized banks, nationalized insurance companies with a view to secure the most effective utilization of the financial investments and loans in such companies and the most efficient development of the concerned industries.

3. To carry on the business of purchasing, manufacturing, selling, importing, exporting, producing, trading, manufacturing plant, equipment and otherwise dealing in all aspects of planning, investigation, research, design, engineering and construction and establishment, operation and maintenance of power transmission systems, distribution systems, generating stations, consultancy and execution of turnkey jobs for other utilities/ organizations and purchase and sale of power, power system development, ancillary and other allied industries and for that purpose to install, operate and manage generating stations and all necessary transmission & distribution lines, sub-stations, switchyards, load despatch stations and communication facilities, establishments and allied works.

3A. To plan, promote, develop, erect and maintain, operate and otherwise deal in telecommunications networks and services in all its aspects including planning, investigation, research, design and engineering, preparation of preliminary, feasibility and definite project reports; to purchase, sell, import, export, assemble, manufacture, install, commission, maintain, operate commercially whether on own or with others, on lease or otherwise, these networks and for such purposes to set up and/or install all requisite communications facilities and other facilities including fibre optic link, digital microwave links, communication cables, other telecommunication means, telephone and other exchanges, coaxial stations, microwave stations, repeater stations, security system databases, billing systems, subscriber management systems and other communication systems whether consisting of sound, visual impulse, or otherwise, existing or that may be developed or invented in the future and to manufacture, purchase, sell, import, export, assemble, take or give on lease/rental/subscription basis or by similar means or otherwise deal in components and other support and ancillary hardware and software systems, accessories, parts and equipments, etc. used in or in connection with the operation of the above communication systems and networks including to deal with telecommunication operators or directly with the general public, commercial companies or otherwise, to obtain the National Long Distance Operator (NLDO) License and acknowledge compliance with the terms and conditions of the License Agreement entered into with the Department of Telecommunications (DOT).

For more information on our business and operations, see "***Our Business***" and "***Financial Statements***" on pages 82 and 184, respectively.

**Changes in our Memorandum of Association**

Since our incorporation, the following changes have been made to our Memorandum of Association pursuant to resolutions of our shareholders:

| Date of Amendment | Details |
|---|---|
| October 25, 1991 | Clause 3 of the main objects clauses was amended, as follows:<br><br>"*To carry on the business of purchasing, manufacturing, selling, importing, exporting, producing, trading, manufacturing plant, equipment and otherwise dealing in all aspects of planning, investigation, research, design, engineering and construction and establishment, operation and maintenance of power transmission systems, distribution systems, generating stations, consultancy and execution of turnkey jobs for other utilities/ organizations and purchase and sale of power, power system development, ancillary and other allied industries and for that purpose to install, operate and manage generating stations and all necessary transmission & distribution lines, sub-stations, switchyards, load dispatch stations and communication facilities, establishments and allied works.*" |
| September 30, 1992, approved by the RoC on October 23, 1992 | The name of our Company was changed from 'National Power Transmission Corporation Limited' to 'Power Grid Corporation of India Limited'. |
| February 22, 2000 | A new object was inserted as clause 3 A of the main objects clause, which is as follows:<br><br>"*To plan, promote, develop, erect and maintain, operate and otherwise deal in telecommunications networks and services in all its aspects including planning, investigation, research, design and engineering, preparation of preliminary, feasibility and definite project reports; to purchase, sell, import, export, assemble, manufacture, install, commission, maintain, operate commercially whether on own or along with others, on lease or otherwise, these networks and for such purposes to set up and/or install all requisite communications facilities and other facilities including fibre optic link, digital microwave links, communication cables, other telecommunication means, telephone and other exchanges, coaxial stations, microwave stations, repeater stations, security system databases, billing systems, subscriber management systems and other communication systems whether consisting of sound, visual impulse, or otherwise, existing or that may be developed or invented in the future and to manufacture, purchase, sell, import, export, assemble, take or give on lease/rental/subscription basis or by similar means or otherwise deal in all components and other support and ancillary hardware and software systems, accessories, parts and equipments, etc. used in or in connection with the operation of the above communication systems and networks including to deal with telecommunication operators or directly with the general public, commercial companies or otherwise.*" |
| June 13, 2006 | Clause 3A was further amended and the following sentence was added which is as follows:<br><br>"*to obtain the National Long Distance Operator (NLDO) Licence and acknowledge compliance with the terms and conditions of the Licence Agreement entered into with Department of Telecommunications*" |
| March 28, 2007 | The authorised share capital of our Company was increased from ₹ 50,000 million |

| Date of Amendment | Details |
|---|---|
| | divided into 50,000,000 equity shares of ₹ 1,000 each to ₹ 100,000 million divided into 10,000,000,000 Equity Shares of ₹ 10 each. Each equity share of ₹ 1,000 has been split into 100 Equity Shares of ₹ 10 each. |
| August 18, 2009 | Clause IIIB (8)was amended and stated as below:<br><br>"*to borrow, for purposes of the Company, foreign currency or to obtain foreign lines of credit including commercial loans from any bank or financial institution or government/authority in India or abroad.*" |

**Listing**

The Equity Shares of our Company were listed in the Stock Exchanges on October 5, 2007 pursuant to our IPO.

The total number of shareholders of our Company as on September 30, 2010 was 792,096.

**Holding Company**

We do not have a holding company.

**Our Subsidiaries**

Our Company has two subsidiaries neither of which have been declared a sick company under the Sick Industrial Companies (Special Provisions) Act, 1985, as amended. No application has been made in respect of our subsidiaries to the Registrar of Companies for striking off its name and no proceedings have been initiated in respect of their winding up, except as described below in respect of Byrnihat Transmission Company Limited ("**BTCL**"). Further, the listing of the equity shares of our Subsidiaries has not been refused by any stock exchange in India or otherwise.

**1. Power System Operation Corporation Limited ("POSOCO")**

POSOCO was incorporated on March 20, 2009 under the Companies Act. POSOCO is authorised to engage in the business of independent system operations. The authorised share capital of POSOCO is ₹ 2,000,000,000 divided into 200,000,000 equity shares of ₹ 10 each, and the paid up capital of POSOCO is ₹ 500,000 (divided into 50,000 equity shares of ₹ 10 each). Our Company, including through its nominees, holds 50,000 equity shares in POSOCO, i.e. 100% of the issued and paid up equity share capital of POSOCO.

The amount of accumulated losses of POSOCO not accounted for by our Company is ₹ 12,802,159 in Fiscal 2010.

**2. Byrnihat Transmission Company Limited ("BTCL")**

BTCL was incorporated on March 23, 2006 under the Companies Act. BTCL is authorised to engage in the business of undertaking the implementation of the 220 KV D/C Misa Byrnihat transmission line. Presently BTCL is not undertaking any business activities. The authorised share capital of BTCL is ₹ 0.50 million divided into 50,000 equity shares of ₹ 10 each and the paid up capital of BTCL is ₹ 0.5 million (divided into 50,000 equity shares of ₹ 10 each). Our Company, including through its nominees, holds 50,000 equity shares in BTCL, i.e. 100% of the issued and paid up equity share capital of BTCL.

The amount of accumulated losses of BTCL not accounted for by our Company are ₹ 101,730 and ₹ 85,548 in Fiscal 2010 and Fiscal 2009, respectively.

The MoP has issued a directive dated August 4, 2010 to our Company conveying the approval of GoI for permitting our Company to institute winding up proceedings of BTCL. The Ministry of Corporate Affairs, GoI, by a letter to our Company dated September 24, 2010, has given notice that at the expiration of 30 days from the date of the letter the name of BTCL will be struck off from the register and BTCL will be dissolved unless cause is shown to the contrary.

**Our Joint Ventures**

We have entered into nine joint venture arrangements, pursuant to which the following joint venture companies have been incorporated:

1. Powerlinks Transmission Limited ("**PTL**");
2. Torrent Powergrid Limited ("**TPL**");
3. Jaypee Powergrid Limited ("**JPL**");
4. Parbati Koldam Transmission Company Limited ("**PKTCL**")
5. Teesta Valley Power Transmission Limited ("**TVPTL**");
6. North East Transmission Company Limited ("**NETCL**");
7. National High Power Test Laboratory Private Limited ("**NHPTL**");
8. Energy Efficiency Services Limited ("**EESL**"); and
9. Powergrid IL&FS Transmission Private Limited ("**PITPL**");

The listing of the equity shares of our joint venture companies has not been refused by any stock exchange in India or otherwise. The key agreements entered into by our Company in relation to the joint venture arrangements and brief details of the joint venture companies are described below.

**1. Powerlinks Transmission Limited ("PTL")**

Our Company is responsible for implementing the entire transmission system associated with the Tala Hydro-Electric Project being developed at Bhutan. We have entered into a joint venture agreement with The Tata Power Company Limited ("**Tata Power**") for establishing specific transmission lines associated with the Tala Hydro-Electric Power Project ("**Tala JV Transmission Project**") on a BOOT basis. The joint venture company PTL has been incorporated pursuant to this joint venture agreement for implementing the Tala JV Transmission Project.

PTL was incorporated on May 4, 2001 as 'Tala-Delhi Transmission Limited' under the Companies Act. The name of the company was changed to 'Powerlinks Transmission Limited' on August 27, 2003. PTL is authorised to engage in the business of building, owning, operating the transmission line associated with the 1,020 MW Tala HEP. The authorised share capital of PTL is ₹ 4,836 million divided into 483.6 million equity shares of ₹ 10 each and the paid up capital of PTL is ₹ 4,680 million (divided into 468 million equity shares of ₹ 10 each). Our Company holds 229,320,000 equity shares in PTL, i.e., 49% of the issued and paid-up capital of PTL.

A. <u>Shareholders' Agreement</u>

Our Company, Tata Power and PTL entered into a shareholders' agreement on July 4, 2003 in relation to the Tala JV Transmission Project ("**Tata SHA**"), which was amended by a supplementary agreement dated August 29, 2008.

The key terms of the Tata SHA are set forth below:

- *Share capital and subscription*: Our Company will subscribe to and hold 49% of the paid-up equity share capital of PTL while the remaining 51% of the paid up equity share capital of PTL will be subscribed to and held by Tata Power and its affiliates. However, Tata Power is required to hold at least 49% of the paid-up equity capital and its affiliates (which will be a maximum of two entities) will hold not more than 2% of the paid-up equity capital. The parties will subscribe to additional shares offered in proportion to their shareholding. The parties will subscribe to the additional shares within 30 days of the call being made to the shareholders to subscribe to the said shares. A party's failure to fulfil this obligation, will constitute a material breach of the Tata SHA giving the other party the following rights:

  (a) the defaulting party will pay interest at 1% per month for every day of default, and in case of sustained default, that is 60 days beyond the specified date, its entitlement will be offered to the non-defaulting party; and

  (b) the non-defaulting party will have the right to terminate the Tata SHA.

- *Board of directors*: As long as our Company holds at least 49% of the paid-up equity share capital of PTL, we have the right to nominate up to four directors. Further, as long as our Company holds at least 26% of the paid-up equity share capital of PTL, we have the right to nominate the non-executive chairman of PTL. Tata Power will have the right to nominate five directors on the board of PTL as long as it continues to hold at least 51% of the paid-up equity share capital of PTL. The managing director of PTL shall be a nominee of Tata Power, who shall be responsible for the management of day to day affairs of PTL. In the event of a change in shareholding in PTL, each shareholder shall be entitled to nominate one director on the board of PTL for each block of 10% of the paid-up equity share capital held by such shareholder. Further, the lenders for the Tala JV Transmission Project shall have a right to nominate upto two directors on the board of PTL.

- *Reserved matters*: As long as our Company holds at least 10% of the paid-up equity capital of PTL, our affirmative vote is required at meetings of the board of directors and shareholders of PTL, for the following matters:

  (a) Any amendment to the memorandum or articles of association of the company;
  (b) Dissolution, liquidation, winding up, merger, amalgamation, split, division, sale, transfer or closure of the company or any part of its undertaking or commencement of any new business or entering into a foreign collaboration agreement or acquisition/subscription of shares, or debt or any other interest in any other entity;
  (c) Creation of any subsidiary, acquisition of control either directly or indirectly, of any other company or investing the company's surplus funds exceeding ₹ 50 million at any time;
  (d) Utilization of the assets or interests of the company for any purpose other than the business of the company
  (e) Giving any corporate guarantee for the benefit of any person or business, other than relating to the Tala JV Transmission Project;
  (f) Award of any contract including any amendments thereto for equipment procurement, supply or construction of the Tala JV Transmission Project including consultancy if the value of such contract exceeds ₹ 500 million, provided that contracts of an aggregate value exceeding ₹ 500 million awarded to the same entity will also be covered under this paragraph;
  (g) Award of any contract for operation and maintenance of the Tala JV Transmission Project if the aggregate value of such contract exceeds ₹ 50 million per annum, provided that those contracts of an aggregate value exceeding ₹ 50 million awarded to the same entity will also be covered under this paragraph. The above value of ₹ 50 million can be increased depending on the wholesale price index;
  (h) Pledging or encumbering any of the assets of the company to any third party other than to

lenders funding the Tala JV Transmission Project cost and other than those arising by operation of law;

(i) Change of any significant accounting principles and practices;
(j) Adoption of annual capital and revenue budgets;
(k) Increase or otherwise alteration in the authorized or issued share capital of company;
(l) Appointment or removal of auditors;
(m) Declaration of dividend;
(n) Listing of shares on any stock exchange; and
(o) Disinvestment of shares.

- *Role of parties*: The parties to the Tata SHA are required to exercise their powers as shareholders and cause the exercise of the powers by their nominees in meetings of the board of directors of PTL so as to ensure that PTL carries on its business in a proper and efficient manner and also to ensure compliance with certain specified principles of good corporate governance, including transaction of all business of PTL on an arms length basis and in accordance with the policies established by the board of directors from time to time. Our Company and Tata Power have also undertaken to exercise voting rights at shareholder and board meetings of PTL so as to ensure the passing of any and every resolution necessary or desirable to procure that the affairs of PTL are conducted in accordance with the Tata SHA.

- *Financing*: Tata Power is primarily responsible for ensuring that PTL raises capital and other finances required for its business. Our Company is not required to undertake or be party to any guarantee, obligation or otherwise give any security for such raising of finance. Our Company will pledge its shareholding in PTL in case the pledge given by Tata Power is insufficient to meet the requirement of the lenders.

- *Transfer of shares*: Subject to certain specified exceptions, our Company and Tata Power cannot transfer any of the shares of PTL for a period of five years from the actual commercial operation date of the completed project. Either party may transfer shares of PTL after the aforesaid period after giving a right of first refusal to the other party and following the procedures established in the Tata SHA. Any transfer of shares may be made by either of the shareholders to their wholly owned subsidiary without requiring compliance with the above mentioned requirements.

- *Termination*: The agreement may be terminated by the parties' mutual written consent, any party going into liquidation or insolvency, or any party committing or knowingly permitting a material breach of any conditions of the agreement which is not cured within the stipulated period, or if our Company ceases to hold at least 10% of the paid-up equity share capital of PTL.

B. Amended and Restated Implementation Agreement

On July 4, 2003 we entered into an implementation agreement with PTL which was revised through an amended and restated implementation agreement executed with PTL on April 8, 2004 ("**Tala Implementation Agreement**"). The Tala Implementation Agreement provides for matters relating to the development and construction of the Tala JV Transmission Project by PTL and establishes the obligations of each party in relation to the project. PTL is responsible for constructing and commissioning the Tala JV Transmission Project in accordance with technical specifications and particulars at its own cost and expense. We have the right to exercise supervision and control over the Tala JV Transmission Project provided it does not interfere with the rights of PTL and the performance of its obligation under the Tala Implementation Agreement. If the PTL fails, for reasons solely attributable to it, to commission any phase of the Tala JV Transmission Project by its commercial operation date, it is required to pay us 0.5% of the cost of development of the phase which has been delayed as liquidated damages for each week of delay subject to a maximum limit of 5% of the cost of development of such phase. Since we are responsible for developing the remaining transmission system associated with the Tala Hydro-Electric Project, our Company is required to provide inter-connection facilities for testing and commission the Tala JV Transmission Project. If we fail to complete and make available the interconnection facilities to PTL on time, our Company will be liable to pay the damages for the delay which will be calculated in the manner stated above.

The schedule to the Tala Implementation Agreement provides the circumstances under which we will be required to buy-out the Tala JV Transmission Project and prescribes the procedure for buy-out. We entered into a supplementary agreement with PTL on October 7, 2004 for modifying the buy-out procedure ("**Supplementary Tala Implementation Agreement**"). The Supplementary Tala Implementation Agreement provides that if PTL serves a termination notice to us under the Tala Implementation Agreement in relation to an event of default of the agreement by our Company, we will, subject to CERC approval be required, within 120 days of such notice, to purchase all assets of PTL comprising the Tala JV Transmission Project (including land, building, plant and equipment, spare parts, records, drawings and other consumables). If we serve a termination notice on PTL under the Implementation Agreement in relation to an event of default of the agreement by PTL, then subject to CERC's approval, we will within six months of such termination notice purchase all assets of PTL comprising the Tala JV Transmission Project. However, if we serve a termination notice on PTL in relation to a *force majeure* event, the buy-out will occur within 120 days, subject to CERC's approval. In the event PTL serves a termination notice on us in relation to a *force majeure* event the buy-out will occur within 120 days subject to CERC's approval. In each case, the price at which we shall purchase the Tala JV Transmission Project will be determined in accordance with the provisions of the Tala Implementation Agreement on the basis of a valuation conducted by an independent firm. The methodology for calculating the buy-out price is prescribed for each circumstance leading to the buy-out.

C. Amended and Restated Transmission Service Agreement

On July 4, 2003 we entered into a transmission service agreement with PTL which was revised through an amended and restated transmission service agreement executed with PTL on April 8, 2004 ("**Tala TSA**") for the purchase of the entire transmission capacity of the Tala JV Transmission Project. Subject to CERC's approval, we have the exclusive right to purchase the entire transmission capacity of the Tala JV Transmission Project for a prescribed transmission charge payable on a monthly basis from the date on which a phase of the Tala JV Transmission Project is first commissioned until the expiry of the Tala TSA i.e. 25 years from the date of issue of a transmission license to PTL (unless the term of the transmission license is extended, subject to a period no later than 30 years from the date of commercial operation of the last phase of the Tala JV Transmission Project) ("**Expiry Date**"), or its termination, whichever is earlier. PTL is responsible for maintaining and repairing the Tala JV Transmission Project and it must ensure that the Tala JV Transmission Project is fit to be operated and is maintained in accordance with the Indian Electricity Grid Code, operating procedures and other compliance requirements.

The schedule to the Tala TSA provides the circumstances under which we shall be required to buy-out the Tala JV Transmission Project and prescribes the procedure for buy-out. We have subsequently entered into a supplementary agreement with PTL on October 7, 2004 for modifying the buy-out procedure ("**Supplementary Tala TSA**"). The events leading to buy-out are similar to the Tala Implementation Agreement described above. However, our Company will have the additional right to purchase each phase of the Tala JV Transmission Project on the Expiry Date. In each case, the price at which we will purchase the Tala JV Transmission Project will be determined in accordance with the provisions of the Tala Transmission Services Agreement on the basis of a valuation conducted by an independent firm. The methodology for calculating the buy-out price is prescribed for each circumstance leading to the buy-out.

## 2. Torrent Powergrid Limited ("TPL")

Torrent Power Limited ("**Torrent**") is implementing a 1,100 MW power generation project at Akhakhol in Surat, Gujarat. We have entered into a joint venture agreement with Torrent for establishing associated transmission lines for the aforesaid generation unit ("**Sugen Transmission Project**"). The joint venture company TPL has been incorporated pursuant to this joint venture agreement for the purpose of implementing the Sugen Transmission Project on a build, own and operate ("**BOO**") basis.

TPL was incorporated on August 25, 2005 as 'Torrent Power Transmission Private Limited' under the Companies Act. With effect from May 4, 2007, TPL became a public limited company and its name was changed to 'Torrent Powergrid Limited'. TPL is authorised to engage in the business of building, owning and operating the transmission line associated with the 1,100 MW Sugen generating project at Surat. The authorized share capital of TPL is ₹ 1,250 million divided into 125 million equity shares of ₹ 10 each and the paid up capital of TPL is ₹ 900 million (divided into 90 million equity shares of ₹ 10 each). Our Company holds 23,400,000 equity shares in TPL, i.e., 26% of the issued and paid-up capital of TPL.

A. Amended and Restated Shareholders' Agreement

On June 15, 2006 we entered into a shareholders' agreement with Torrent and TPL which was revised through an amended and restated shareholders' agreement executed with Torrent and TPL on February 23, 2007 in relation to the Sugen Transmission Project ("**Torrent SHA**"). The key terms of the Torrent SHA are set forth below:

- *Share capital and subscription*: Our Company and Torrent will each subscribe to and hold 26% of the paid-up equity share capital of TPL. Our Company has the right to maintain its shareholding at this level by subscribing to any future issue of shares of TPL, in proportion to our current shareholding.

- *Board of directors*: The board of directors of TPL shall comprise not more than 12 directors. As long as our Company continues to hold 26% of the paid-up equity share capital of TPL, our Company will have the right to nominate up to three directors on the board of directors of TPL. Further, our Chairman will be the non-executive chairman of TPL. Torrent shall have the right to nominate seven directors on the board of directors of TPL as long as it continues to hold at least 74% of the paid-up equity share capital of TPL. The managing director of TPL will be a nominee of Torrent, who will be responsible for the management of day to day affairs of TPL. Further, the lenders for the Sugen Transmission Project will have a right to nominate two directors on the board of TPL.

- *Reserved matters*: As long as we hold at least 10% of the paid-up equity capital of TPL, our affirmative vote is required at meetings of the board of directors and shareholders of TPL, for the following matters:

  (a) Any amendment to the memorandum or articles of association of the company;
  (b) Dissolution, liquidation, winding up, merger, amalgamation, split, division, sale, transfer or closure of the company or any part of its undertaking or commencement of any new business or entering into a foreign collaboration agreement or acquisition/subscription of shares, or debt or any other interest in any other entity;
  (c) Creation of any subsidiary, acquisition of control either directly or indirectly, of any other company or investing the company's surplus funds exceeding ₹ 50 million at any time;
  (d) Utilization of the assets or interests of the company for any purpose other than the business of the company;

(e) Giving any corporate guarantee for the benefit of any person or business, other than relating to the project;
(f) Award of any contract including any amendments thereto for equipment procurement, supply or construction of the Sugen Transmission Project including consultancy if the value of such contract exceeds ₹ 500 million. Provided that, contracts of an aggregate value exceeding ₹ 500 million awarded to the same entity will also be covered under this paragraph;
(g) Award of any contract for operation and maintenance of the Sugen Transmission Project if the aggregate value of such contract exceeds ₹ 50 million per annum. Provided further those contracts of an aggregate value exceeding ₹ 50 million awarded to the same entity will also be covered under this paragraph. The above value of ₹ 50 million can be increased depending on the wholesale price index;
(h) Pledging or encumbering any of the assets of the company to any third party other than to lenders funding the Sugen Transmission Project cost and other than those arising by operation of law;
(i) Change of any significant accounting principles and practices;
(j) Adoption of annual capital and revenue budgets;
(k) Increase or otherwise alteration in the authorized or issued share capital of company;
(l) Appointment or removal of auditors;
(m) Declaration of dividend;
(n) Listing of shares on any stock exchange; and
(o) Disinvestment of shares.

- *Role of parties*: Our Company and Torrent, as shareholders of TPL, are required to exercise all voting rights and powers available to them in relation to TPL and cause our respective nominees to exercise their powers in meetings of the board of directors of TPL so as to ensure that TPL carries on its business in a proper and efficient manner and to ensure that TPL complies with certain specified principles of good corporate governance, including transaction of all its business on an arms length basis and in accordance with the policies established by the board of directors from time to time. Our Company and Torrent have also undertaken to exercise voting rights at shareholder and board meetings of TPL so as to ensure the passing of any and every resolution necessary or desirable to procure that the affairs of TPL are conducted in accordance with the Torrent SHA.

- *Financing*: Torrent is primarily responsible for ensuring that TPL raises capital and other finances required for its business. Our Company will not be required to undertake or be a party to any guarantee, obligation or give any security for raising of finance. However, our Company has agreed to pledge, to lenders funding the project cost, its shareholding if the pledge already given by Torrent is insufficient to meet the requirements of the lender.

- *Transfer of shares*: Subject to certain specified exceptions, our Company and Torrent cannot transfer any of the shares of TPL for a period of five years from the actual commercial operation date of the completed project. Either party may transfer shares of TPL after the aforesaid period after giving the right of first refusal to the other party and following the procedures established in the Torrent SHA. However, a transfer of shares may be made by either shareholder to its wholly owned subsidiary without requiring compliance with the above mentioned requirements, provided that such transferee executes a deed of adherence.

- *Termination*: The agreement may be terminated by the parties' mutual written consent, any party going into liquidation or insolvency, or any party committing or knowingly permitting a material breach of any conditions of the agreement which is not cured within the stipulated period, or if our Company ceases to hold at least 10% of the paid-up equity share capital of TPL.

B. Amended and Restated Implementation and Transmission Service Agreements

For the purpose of implementation of the Sugen Transmission Project, TPL entered into an implementation agreement and a transmission services agreement with Torrent which were revised through the execution of an amended and restated Implementation Agreement ("**Torrent Implementation Agreement**") dated February 23, 2007 and an amended and restated Transmission Services Agreement ("**Torrent Transmission Services Agreement**") dated February 23, 2007. The revisions in the agreements were made to delete the buy-out provisions in the agreements.

The Torrent Implementation Agreement provides for matters relating to the development and construction, commissioning and connection of the Sugen Transmission Project by TPL and establishes the obligations of each party in relation to the project. The Torrent Implementation Agreement in relation to each phase of the Sugen Transmission Project is valid until the date of commercial operation of such phase or any other date which may be mutually agreed between the parties.

Torrent has agreed to purchase the entire transmission capacity of the Sugen Transmission Project from TPTPL for a specified transmission charge. The Torrent Transmission Services Agreement is valid until 25 years from the date of issue of the transmission license to TPL.

The Torrent Implementation Agreement and the Torrent Transmission Service Agreement may be terminated by either party to the agreement on the occurrence of an event of default by the other party in the manner specified in the agreements, pursuant to which the Sugen Transmission Project may be sold by TPL within 120 days of the termination notice subject to CERC's approval.

**3. Jaypee Powergrid Limited ("JPL")**

Jaypee Karcham Hydro Corporation Limited ("**JKHCL**") is setting up a 1,000 MW power generation project at Karcham in Kinnaur, Himachal Pradesh. We have entered into a joint venture arrangement with Jaiprakash Power Venture Limited ("**Jaiprakash**"), earlier named as Jaiprakash Hydro-Power Limited, for establishing associated transmission lines for the aforesaid generation unit ("**Karcham Transmission Project**") on a BOO basis. The joint venture company JPL has been incorporated pursuant to this joint venture agreement for the purpose of implementing the Karcham Transmission Project. The project undertaken by JPL consists of 468 circuit kilometers of transmission line associated with the 1,000 MW Karcham Wangtoo Hydro Electric Project and is expected to be completed by Fiscal 2011.

JPL was incorporated on October 5, 2006 as 'Jaypee Powergrid Limited', under the Companies Act. JPL is authorised to engage in the business of building, owning and operating the transmission lines in connection with the 1,000 MW power generation project at Karcham, Himachal Pradesh. The authorized share capital of JPL is ₹ 3,000 million divided into 300 million equity shares of ₹ 10 each and the paid up capital of JPL is ₹ 2,250 million (divided into 225 million equity shares of ₹ 10 each). As on September 30, 3010, our Company's equity shareholding in JVPL was 45,500,000. As on the date of this Red Herring Prospectus, our Company holds 58.5 million equity shares in JPL, i.e., 26% of the issued and paid-up equity capital of JPL.

A. <u>Shareholders' Agreement</u>

Our Company, Jaiprakash and JPL entered into a shareholders' agreement dated February 22, 2007, which was amended by a supplementary shareholders' agreement dated March 25, 2010 in relation to the Karcham Transmission Project. ("**Jaiprakash SHA**").

The key terms of the Jaiprakash SHA are set forth below:

- *<u>Share capital and subscription</u>*: Our Company will subscribe to and hold 26% of the paid-up equity share capital of JPL while the remaining 74% of the paid-up equity share capital of JPL will be subscribed and held by Jaiprakash. Our Company has the right to maintain our shareholding at this level by subscribing to any future issue of shares of JPL, in proportion to our current share holding.

- *Board of directors*: The board of directors of JPL swill comprise not more than 12 directors. As long as we continue to hold 26% of the paid-up equity share capital of JPL, our Company will have the right to nominate up to three directors on the board of JPL. Further, our Chairman will be the non-executive chairman of JPL. Jaiprakash will have the right to nominate seven directors on the board of JPL as long as it continues to hold at least 74% of the paid-up equity share capital of JPL. The managing director of JPL will be a nominee of Jaiprakash, who will be responsible for the management of day to day affairs of JPL. Further, the lenders for the Karcham Transmission Project will have a right to nominate upto two directors on the board of JPL.

- *Reserved matters*: So long as we hold at least 10% of the paid-up equity capital of JPL, our affirmative vote is required at meetings of the board of directors and shareholders of JPL, for the following matters:

(a) Any amendment to the memorandum or articles of association of the company;
(b) Dissolution, liquidation, winding up, merger, amalgamation, split, division, sale, transfer or closure of the company or any part of its undertaking or commencement of any new business or entering into a foreign collaboration agreement or acquisition/subscription of shares, or debt or any other interest in any other entity;
(c) Creation of any subsidiary, acquisition of control either directly or indirectly, of any other company or investing the company's surplus funds exceeding ₹ 50 million at any time;
(d) Utilization of the assets or interests of the company for any purpose other than the business of the company;
(e) Giving any corporate guarantee for the benefit of any person or business, other than relating to the Karcham Transmission Project;
(f) Award of any contract including any amendments thereto for equipment procurement, supply or construction of the Karcham Transmission Project including consultancy if the value of such contract exceeds ₹ 500 million. Provided that, contracts of an aggregate value exceeding ₹ 500 million awarded to the same entity will also be covered under this paragraph;
(g) Award of any contract for operation and maintenance of the Karcham Transmission Project if the aggregate value of such contract exceeds ₹ 50 million per annum. Provided further those contracts of an aggregate value exceeding ₹ 50 million awarded to the same entity will also be covered under this paragraph. The above value of ₹ 50 million can be increased depending on the wholesale price index;
(h) Pledging or encumbering any of the assets of the company to any third party other than to lenders funding the Karcham Transmission Project cost and other than those arising by operation of law;
(i) Change of any significant accounting principles and practices;
(j) Adoption of annual capital and revenue budgets;
(k) Increase or otherwise alteration in the authorized or issued share capital of company;
(l) Appointment or removal of auditors;
(m) Declaration of dividend;
(n) Listing of shares on any stock exchange; and
(o) Disinvestment of shares.

- *Role of parties*: The parties to the Jaiprakash SHA are required to exercise their powers as shareholders and cause the exercise of the powers by their nominees in meetings of the board of directors of JPL so as to ensure that JPL carries on its business in a proper and efficient manner and also to ensure compliance with certain specified principles of good corporate governance including transaction of all business on an arms length basis and in accordance with the policies established by the board of directors from time to time. Our Company and Jaiprakash have also undertaken to exercise voting rights at shareholder and board meetings of JPL so as to ensure the passing of any and every resolution necessary or desirable to procure that the affairs of JPL are conducted in accordance with the Jaiprakash SHA.

- *Financing*: Jaiprakash is primarily responsible for ensuring that JPL raises capital and other finances required for its business. Our Company will not be required to undertake or be a party to any guarantee, obligation or give any security for raising of finance. However, our Company has agreed to pledge, to lenders funding the project cost, its shareholding if the pledge already given by Jaiprakash is insufficient to meet the requirements of the lender.

- *Transfer of shares*: Subject to certain specified exceptions, our Company and Jaiprakash cannot transfer any of the shares of JPL at any time until the actual commercial operation date of the completed project. Either party may transfer shares of JPL after the aforesaid period in the following manner:

  (a) after the actual commercial operation date of the completed project and for a period of 5 years from such date both Jaiprakash (including its affiliates) and our Company will have the right to reduce its respective shareholdings in JPL in excess of 51% and 10%, of the paid up share capital respectively by transferring such shares to a strategic investor or through a public listing.
  (b) after the completion of 5 years from the actual commercial operation date of the project both Jaiprakash (including its affiliates) and our Company will have the right to transfer their respective shares to a strategic investor or through public listing. Provided, as long as our Company holds at least 10% of the paid up share capital of JPL under no circumstances can the shareholding of Jaiprakash fall below 26%.

  Either party may transfer shares of JPL to a strategic partner after the aforesaid periods after giving a right of first refusal to the other party and following the procedures established in the Jaiprakash SHA. If Jaiprakash decides to sell its shares in JPL through a public listing, it can do so by giving our Company the right to sell a proportionate percentage of its shares to the public on the same terms and conditions by following the procedures established in the Jaiprakash SHA. If our Company decides to sell its shares in JPL through a public listing, it can do so by giving Jaiprakash the right to sell an equal number of shares to the public on the same terms and conditions by following the procedures established in the Jaiprakash SHA.

- *Termination*: The agreement may be terminated by the parties' mutual written consent, any party going into liquidation or insolvency, or any party committing or knowingly permitting a material breach of any conditions of the agreement which is not cured within the stipulated period, or if a party ceases to hold at least 10% of the paid-up equity share capital of JPL.

B. Implementation and Transmission Service Agreements

For the purpose of implementation of the Karcham Transmission Project, JKHCL has entered into an Implementation Agreement ("**Karcham Implementation Agreement**") dated February 22, 2007 and a Transmission Services Agreement ("**Karcham Transmission Services Agreement**") with JPL dated February 22, 2007.

The Karcham Implementation Agreement provides for matters relating to the development and construction of the Karcham Transmission Project by JPL and establishes the obligations of each party in relation to the project. The Karcham Implementation Agreement is valid until the date of commercial operation of the Karcham Transmission Project or any other date which may be mutually agreed between the parties.

JKHCL has agreed to purchase the entire transmission capacity of the Karcham Transmission Project from JPL for a specified transmission charge. The Transmission Services Agreement is valid until 25 years from the date of issue of the transmission license to JPL or such extended period for which the transmission license is extended.

The Karcham Implementation Agreement and the Karcham Transmission Service Agreement may be terminated by either party to the agreement on the occurrence of an event of default by the other party as specified in the agreements, pursuant to which JPL will approach CERC for sale of the Karcham Transmission Project.

**4. Parbati Koldam Transmission Company Limited ("PKTCL")**

National Hydroelectric Power Corporation Limited is establishing the 800 MW Parbati-II HEP Station in Kullu District, Himachal Pradesh and NTPC is establishing the 800 MW Koldam HEP Station in Bilaspur District, Himachal Pradesh. For the above mentioned projects the Standing Committee on Transmission System Planning of Northern Region has, in a meeting dated December 30, 2002 highlighted the need for establishing a suitable evacuation capacity. In furtherance of this our Company decided to implement the transmission project for the Koldam HEP and the Parbati HEP ("**Parbati Koldam Project**"). Reliance Infra Limited ("**RIL**"), earlier named as Reliance Energy Limited, was chosen through a bidding process to be the joint venture partner for the Parbati Koldam Project. We have entered into a joint venture arrangement with RIL for establishing the joint venture company that will undertake the implementation of the Parbati Koldam Project.

PKTCL was incorporated on September 2, 2002 under the Companies Act. PKTCL is authorised to engage in the business of building, owning and operating the transmission line associated with Parbati-II (800 MW) and Koldam (800 MW) HEPs. The authorized share capital of PKTCL is ₹ 3,310 million divided into 331 million equity shares of ₹ 10 each and the paid up capital of PKTCL is ₹ 172 million (divided into 17.2 million equity shares of ₹ 10 each). As on September 30, 2010, our Company's holds 4,471,997 equity shares in PKTCL, i.e., 26% of the issued and paid-up capital of PKTCL.

A. Shareholders' Agreement

On November 23, 2007 we executed a shareholders' agreement with RIL in relation to the Parbati Koldam Project. ("**RIL SHA**"). The key terms of the RIL SHA are set forth below:

*Share capital and subscription*: Our Company will subscribe to and hold 26% of the paid-up equity share capital of PKTCL while the remaining 74% of the paid-up equity share capital of PKTCL will be subscribed and held by RIL. We have the right to maintain our shareholding at this level by subscribing to any future issue of shares of PKTCL, in proportion to our current share holding. The parties agree and undertake to subscribe to additional shares offered in proportion to their shareholding. The parties will have the obligation to subscribe to the additional shares within 30 days of the call being made to the shareholders to subscribe to the said shares. A party's failure to fulfil its obligation, will constitute a material breach of the RIL SHA requiring the party defaulting party shall pay interest at 1% per month for every day of default, and in case of sustained default, that is 60 days beyond the specified date, its entitlement shall be offered to the non-defaulting party. Further, the non-defaulting party shall also have the right to terminate the RIL SHA.

- *Board of directors*: As long as our Company holds at least 26% of the paid-up equity share capital of PKTCL, we will have the right to nominate up to three directors. Further, our chairman shall be the chairman of the board of directors of PKTCL. RIL will have the right to nominate seven directors on the board of PKTCL as long as it continues to hold at least 74% of the paid-up equity share capital of PKTCL. The managing director of PKTCL will be a nominee of RIL, who will be responsible for the management of day to day affairs of PKTCL. Further, the lenders for the Parbati Koldam Project will have a right to nominate two directors on the board of PKTCL.

- *Reserved matters*: As long as we hold at least 10% of the paid-up equity capital of PKTCL, our affirmative vote is required at meetings of the board of directors and shareholders of PKTCL, for the following matters:

  (a) Any amendment to the memorandum or articles of association of the company;
  (b) Dissolution, liquidation, winding up, merger, amalgamation, split, division, sale, transfer or closure of the company or any part of its undertaking or commencement of any new business or entering into a foreign collaboration agreement or acquisition/subscription of shares, or debt or any other interest in any other entity;
  (c) Creation of any subsidiary, acquisition of control either directly or indirectly, of any other company or investing the company's surplus funds exceeding ₹ 50 million at any time;
  (d) Utilization of the assets or interests of the company for any purpose other than the business of the company;
  (e) Giving any corporate guarantee for the benefit of any person or business, other than relating to the Parbati Koldam Project;
  (f) Award of any contract including any amendments thereto for equipment procurement, supply or construction of the Parbati Koldam Project including consultancy if the value of such contract exceeds ₹ 500 million. Provided that, contracts of an aggregate value exceeding ₹ 500 million awarded to the same entity will also be covered under this paragraph;
  (g) Award of any contract for operation and maintenance of the Parbati Koldam Project if the aggregate value of such contract exceeds ₹ 50 million per annum. Provided further those contracts of an aggregate value exceeding ₹ 50 million awarded to the same entity will also be covered under this paragraph. The above value of ₹ 50 million can be increased depending on the wholesale price index;
  (h) Pledging or encumbering any of the assets of the company to any third party other than to lenders funding the Parbati Koldam Project cost and other than those arising by operation of law;
  (i) Change of any significant accounting principles and practices;
  (j) Adoption of annual capital and revenue budgets;
  (k) Increase or otherwise alteration in the authorized or issued share capital of company;
  (l) Appointment or removal of auditors;
  (m) Declaration of dividend;
  (n) Listing of shares on any stock exchange; and
  (o) Disinvestment of shares.

- *Role of parties*: The parties to the RIL SHA are required to exercise their powers as shareholders and cause the exercise of the powers by their nominees in meetings of the board of directors of PKTCL so as to ensure that PKTCL carries on its business in a proper and efficient manner and also to ensure compliance with certain specified principles of good corporate governance, including transaction of all business of PKTCL on an arms length basis and in accordance with the policies established by the board of directors from time to time. Our Company and RIL have also undertaken to exercise voting rights at shareholder and board meetings of PKTCL so as to ensure the passing of any and every resolution necessary or desirable to procure that the affairs of PKTCL are conducted in accordance with the RIL SHA.

- *Financing*: RIL is primarily responsible for ensuring that PKTCL raises capital and other finances required for its business. Our Company is not required to undertake or be party to any guarantee, obligation or otherwise give any security for such raising of finance. Our Company has agreed to pledge its shareholding in PKTCL in case the pledge given by RIL is insufficient to meet the requirement of the lenders.

- *Transfer of shares*: Subject to certain specified exceptions, our Company and RIL cannot transfer any of the shares of PKTCL for a period of five years from the actual commercial operation date of the transmission project. Either party may transfer shares of PKTCL after the aforesaid period after giving the right of first refusal to the other party and following the procedures established in the RIL SHA.

- *Termination*: The agreement may be terminated by the parties' mutual written consent, any party going into liquidation or insolvency, or if our Company ceases to hold at least 10% of the paid-up equity share capital of PKTCL or either party's failure to meet its payment obligations towards equity contribution in the case of issue of additional shares.

B. Implementation Agreement

On November 23, 2007, we entered into an implementation agreement with PKTCL ("**Parbati Implementation Agreement**"). The Parbati Implementation Agreement provides for matters relating to the development and construction of the Parbati Koldam Project by PKTCL and establishes the obligations of each party in relation to the project. PKTCL is responsible for constructing and commissioning the Parbati Koldam Project in accordance with technical specifications and particulars at its own cost and expense. We have the right to exercise supervision and control over the Parbati Koldam Project provided it does not interfere with the rights of PKTCL and the performance of its obligation under the Parbati Implementation Agreement. If the PKTCL fails, for reasons solely attributable to it, to commission any phase of the Parbati Koldam Transmission Project by its commercial operation date, it is required to pay us 0.5% of the cost of development of the phase which has been delayed as liquidated damages for each week of delay subject to a maximum limit of 5% of the cost of development of such phase.

C. Operations Interface Agreement

On November 23, 2007 we entered into an operations interface agreement with PKTCL ("**Parbati Operations Agreement**"). The Parbati Operations Agreement provides for matters relating to the operation and maintenance of the Parbati Koldam Project by PKTCL and establishes the obligations of each party in relation to the project. PKTCL is responsible for the operation, maintenance and repair of the Parbati Koldam Project in accordance with the technical specifications and technical particulars as set out in the Parbati Operations Agreement and also the Indian Electricity Grid Code. We have to ensure that the Parbati Koldam Project remains connected with interconnection facilities as well as operate and maintain the interconnection facilities. We also have the right to exercise supervision and control over the operation and management of the Parbati Koldam Project. The availability of a phase of the Parbati Koldam Project, that is the "actual availability", will be calculated on the basis of field data relating to the affected area as per mutual agreement of the parties to the Parbati Operations Agreement. In case the "actual availability" is lower than the availability in the northern region, PKTCL will pay to us an amount equal to the differential of billed TSC/incentive for the transmission system/project and the TSC/incentive based on the actual availability of the transmission system/project cost as settled in case of dispute. If the "actual availability" is higher than the availability in the northern region, our Company is required to pay PKTCL an amount calculated in the same manner. The Parbati Operations Agreement will remain in force for a period of 25 years from the date of issue of a transmission license to PKTCL or any other extended period as may be mutually agreed.

*Termination*: The Parbati Operations Agreement may be terminated by either party to the agreement on the occurrence of an event of default by the other party as specified in the agreement, including if any shareholder, who is a party to the RIL SHA, except our Company, ceases to be a shareholder in PKTCL, otherwise than in accordance with the RIL SHA.

## 5. Teesta Valley Power Transmission Limited ("TVPTL")

Teesta Urja Limited ("**TUL**") is setting up a 1,200 MW Teesta – III hydro electric project in North Sikkim. We have entered into a joint venture with TUL for establishing associated transmission lines for the above HEP on a build, own and operate basis.

Pursuant to the above, TVPTL was incorporated on August 10, 2006 under the Companies Act. TVPTL is authorised to engage in the business of building, owning and operating the transmission line associated with 1200 MW (6x200 MW) Teesta – III HEP in the state of Sikkim. The authorized share capital of TVPTL is ₹ 1,200 million divided into 120 million equity shares of ₹ 10 each and the paid up capital of TVPTL is ₹ 782.1 million (divided into 78.2 million equity shares of ₹ 10 each). Our Company currently holds 20,333,000 equity shares in TVPTL, i.e., 26.0% of the issued and paid-up capital of TVPTL.

A. Shareholders' Agreement

On August 6, 2008 we executed the shareholders' agreement (the "**Teesta SHA**") with TUL and TVPTL in relation to the 1,200 MW Teesta – III hydro electric project (the "**Teesta Project**").
The key terms of the Teesta SHA are set forth below:

- *Share capital and subscription*: The initial authorized equity share capital of TVPTL will be ₹ 2,250 million divided into 225 million equity shares of ₹ 10 each. The initial paid-up capital of TVPTL will be ₹ 500,000 to be contributed by our Company and TUL in the ratio of their shareholding. The Teesta SHA provides that 26% of the paid-up equity share capital of TVPTL will be subscribed and held by our Company while the remaining paid-up equity capital of TVPTL will be subscribed and held by TUL. The parties agree and undertake to subscribe to additional shares offered in proportion to their shareholding. The parties will have the obligation to subscribe to the additional shares within 30 days of the call being made to the shareholders to subscribe to the said shares. In case of a party's failure to fulfil its obligation, it will constitute a material breach of the Teesta SHA giving the other party the following rights:

  (a) the party defaulting party will pay interest at 1% per month for every day of default, and in case of sustained default, that is 60 days beyond the specified date, its entitlement will be offered to the non-defaulting party; and
  (b) the non-defaulting party will also have the right to terminate the Teesta SHA.

- *Board of directors*: The board of directors of TVPTL will comprise not more than 12 directors. As long as we continue to hold 26% of the paid-up equity share capital of TVPTL, our Company will have the right to nominate up to three directors on the board of TVPTL. Further, our Chairman will be the non-executive chairman of TVPTL. TUL will have the right to nominate seven directors on the board of TVPTL as long as it continues to hold at least 74% of the paid-up equity share capital of TVPTL. The managing director of TVPTL will be a nominee of TUL, who will be responsible for the management of day to day affairs of TVPTL. Further, the lenders for the Teesta Project will have a right to nominate two directors on the board of TVPTL.

- *Reserved matters*: So long as we hold at least 10% of the paid-up equity capital of TVPTL, our affirmative vote is required at meetings of the board of directors and shareholders of TVPTL, for the following matters:

  (a) Any amendment to the memorandum or articles of association of the company;
  (b) Dissolution, liquidation, winding up, merger, amalgamation, split, division, sale, transfer or closure of the company or any part of its undertaking or commencement of any new business or entering into a foreign collaboration agreement or acquisition/subscription of shares, or

debt or any other interest in any other entity;

(c) Creation of any subsidiary, acquisition of control either directly or indirectly, of any other company or investing the company's surplus funds exceeding ₹ 50 million at any time;
(d) Utilization of the assets or interests of the company for any purpose other than the business of the company;
(e) Giving any corporate guarantee for the benefit of any person or business, other than relating to the Teesta Project;
(f) Award of any contract including any amendments thereto for equipment procurement, supply or construction of the Teesta Project including consultancy if the value of such contract exceeds ₹ 500 million. Provided that, contracts of an aggregate value exceeding ₹ 500 million awarded to the same entity will also be covered under this paragraph;
(g) Award of any contract for operation and maintenance of the Teesta Project if the aggregate value of such contract exceeds ₹ 50 million per annum. Provided further, those contracts of an aggregate value exceeding ₹ 50 million awarded to the same entity will also be covered under this paragraph. The above value of ₹ 50 million can be increased depending on the wholesale price index;
(h) Pledging or encumbering any of the assets of the company to any third party other than to lenders funding the Teesta Project cost and other than those arising by operation of law;
(i) Change of any significant accounting principles and practices;
(j) Adoption of annual capital and revenue budgets;
(k) Increase or otherwise alteration in the authorized or issued share capital of company;
(l) Appointment or removal of auditors;
(m) Declaration of dividend;
(n) Listing of shares on any stock exchange; and
(o) Disinvestment of shares.

- *Role of parties*: The parties to the Teesta SHA are required to exercise their powers as shareholders and cause the exercise of the powers by their nominees in meetings of the board of directors of TVPTL so as to ensure that TVPTL carries on its business in a proper and efficient manner and also to ensure compliance with certain specified principles of good corporate governance including transaction of all business on an arms length basis and in accordance with the policies established by the board of directors from time to time. Our Company and TUL have also undertaken to exercise voting rights at shareholder and board meetings of TVPTL so as to ensure the passing of any and every resolution necessary or desirable to procure that the affairs of TVPTL are conducted in accordance with the Teesta SHA.

- *Financing*: TUL is primarily responsible for ensuring that TVPTL raises capital and other finances required for its business. Our Company is not required to undertake or be party to any guarantee, obligation or otherwise give any security for such raising of finance. Our Company has agreed to pledge its shareholding in TVPTL in case the pledge given by TUL is insufficient to meet the requirement of the lenders.

- *Transfer of shares*: Subject to certain specified exceptions, our Company and TUL cannot transfer any of the shares of TVPTL at any time until the actual commercial operation date of the completed project. Either party may transfer shares of TVPTL after the aforesaid period in the following manner:

  (a) after the actual commercial operation date of the completed project and for a period of 5 years from such date both TUL (including its affiliates) and our Company will have the right to reduce our respective shareholdings in TVPTL in excess of 51% and 10%, of the paid up share capital respectively by transferring such shares to a strategic investor or through a public listing.

(b) after the completion of five years from the actual commercial operation date of the project both TUL (including its affiliates) and our Company will have the right to transfer their respective shares to a strategic investor or through public listing. This is, however, subject to the condition that under no circumstances the shareholding of TUL shall fall below 26%, so long as our Company holds at least 10% of the paid-up capital of TVPTL.

Either party may transfer shares of TVPTL to a strategic partner after the aforesaid periods after giving the right of first refusal to the other party and following the procedures established in the Teesta SHA. If TUL decides to sell its shares in TVPTL through a public listing, it can do so by giving our Company the right to sell a proportionate percentage of its shares to the public on the same terms and conditions by following the procedures established in the Teesta SHA. If our Company decides to sell its shares in TVPTL through a public listing, it can do so by giving TUL the right to sell an equal number of shares to the public on the same terms and conditions by following the procedures established in the Teesta SHA.

- *Termination*: The agreement may be terminated by the parties' mutual written consent, any party going into liquidation or insolvency, or any party committing or knowingly permitting a material breach of any conditions of the agreement which is not cured within the stipulated period, or if our Company ceases to hold at least 10% of the paid-up equity share capital of TVPTL.

B. Implementation and Transmission Service Agreements

TUL has entered into an Implementation Agreement ("**Teesta Implementation Agreement**") dated August 6, 2008 and a Transmission Services Agreement ("**Teesta Transmission Services Agreement**") with TVPTL dated August 6, 2008, for implementation of the Teesta Project.

The Teesta Implementation Agreement provides for matters relating to the development and construction of the Teesta Project by TVPTL and establishes the obligations of each party in relation to the project. The Teesta Implementation Agreement is valid until the date of commercial operation of the Teesta Project or any other date which may be mutually agreed between the parties.

TUL has agreed to purchase the entire transmission capacity of the Teesta Project from TVPTL for a specified transmission charge. The Teesta Transmission Services Agreement is valid until 25 years from the date of issue of the transmission license to TVPTL or such extended period for which the transmission license is extended.

The Teesta Implementation Agreement and the Teesta Transmission Service Agreement may be terminated by either party to the agreement on the occurrence of an event of default by the other party as specified in the agreements, pursuant to which TVPTL will approach CERC for sale of the Teesta Project.

**6. North East Transmission Company Limited ("NETCL")**

ONGC Tripura Power Company Limited ("**OTPC**") is setting up a gas-based power project of 726 MW capacity at Pallatana in Tripura. We have entered into a joint venture with OTPC and the Government of Tripura ("**GoT**") for establishing associated transmission system for the above hydro electric project on a BOO basis. The joint venture company NETCL has been incorporated pursuant to this joint venture agreement for the purpose of implementing the above project.

NETCL was incorporated on August 26, 2008 under the Companies Act. NETCL is authorised to engage in the business of building, owning and operating the transmission line associated with the 726.6 MW gas-based combined cycle power project at Pallatana, Tripura. The authorized share capital of NETCL is ₹ 6,000 million divided into 600 million equity shares of ₹ 10 each and the paid up capital of NETCL is ₹ 747.2 million (divided into 74.7 million equity shares of ₹ 10 each). Our

Company holds 23,101,000 equity shares in NETCL, i.e., 30.9% of the issued and paid-up capital of NETCL.

A. Shareholders' Agreement

On February 3, 2009 we executed the shareholders' agreement (the "**OTPC SHA**") with OTPC, GoT and NETCL in relation to the gas-based power project of 726.6 MW capacity at Pallatana in Tripura (the "**Tripura Project**"). The key terms of the OTPC SHA are set forth below:

- *Share capital and subscription*: The initial authorised share capital of NETCL will be ₹ 3,500 million divided into 350 million equity shares of ₹ 10 each. The OTPC SHA provides that 26% of the paid-up equity share capital of NETCL will be subscribed and held by our Company while 64% of the paid-up equity capital of NETCL will be subscribed and held by OTPC and 10% of the paid-up equity capital will be held and subscribed by GoT. After achieving the aforesaid shareholding, OTPC will endeavor to tie-up 38% of the paid-up equity share capital of NETCL from one or more beneficiaries as defined in the OTPC SHA and/or other parties to the agreement so as to achieve the following shareholding (i) OTPC- 26%, (ii) our Company- 26%, (iii) Government of Tripura- 10%; and (iv) beneficiaries/other parties- 38%. The parties agree and undertake to subscribe to additional shares offered in proportion to their shareholding. The parties will have the obligation to subscribe to the additional shares within 30 days of the call being made to the shareholders to subscribe to the said shares. A party's failure to fulfil its obligation, will constitute a material breach of the OTPC SHA requiring the party defaulting party will pay interest at 1% per month for every day of default, and in case of sustained default, that is 60 days beyond the specified date, its entitlement shall be offered to the non-defaulting party. Further, the non-defaulting party will also have the right to terminate the OTPC SHA.

- *Board of directors*: The board of directors of NETCL will comprise not more than 12 directors. As long as our Company continues to hold 26% of the paid-up equity share capital of NETCL, we will have the right to nominate up to three directors on the board of directors of NETCL. Further, our Chairman will be the non-executive chairman of NETCL. OTPC will have the right to nominate three directors on the board of directors of NETCL as long as it continues to hold more than 26% of the paid-up equity share capital of NETCL. A party holding over 15% but less than 25% of the paid-up equity share capital of NETCL is entitled to nominate two directors on the board of directors of NETCL. A party holding over 10% but less than 15% of the paid-up equity share capital of NETCL is entitled to nominate one director on the board of directors of NETCL. Further, a party holding less than 10% of the paid-up equity share capital of NETCL is entitled to nominate one director as an invitee on the board of directors NETCL. The managing director of NETCL will be a nominee of OTPC, who will be responsible for the management of day to day affairs of NETCL. GoT will have the right to nominate one director on the board of NETCL as an invitee. Further, the lenders for the Tripura Project will have a right to nominate two directors on the board of NETCL.

- *Reserved matters*: So long as we hold at least 26% of the paid-up equity capital of NETCL, our affirmative vote is required at meetings of the board of directors and shareholders of NETCL, for the following matters:

  (a) Any amendment to the memorandum or articles of association of the company;
  (b) Dissolution, liquidation, winding up, merger, amalgamation, split, division, sale, transfer or closure of the company or any part of its undertaking or commencement of any new business or entering into a foreign collaboration agreement or acquisition/subscription of shares, or debt or any other interest in any other entity;
  (c) Creation of any subsidiary, acquisition of control either directly or indirectly, of any other company or investing the company's surplus funds exceeding ₹ 50 million at any time;
  (d) Utilization of the assets or interests of the company for any purpose other than the business of

the company

(e) Giving any corporate guarantee for the benefit of any person or business, other than relating to the Tripura Project;
(f) Award of any contract including any amendments thereto for equipment procurement, supply or construction of the Tripura Project including consultancy if the value of such contract exceeds ₹ 500 million, provided that, contracts of an aggregate value exceeding ₹ 500 million awarded to the same entity will also be covered under this paragraph;
(g) Award of any contract for operation and maintenance of the Tripura Project if the aggregate value of such contract exceeds ₹ 50 million per annum, provided further those contracts of an aggregate value exceeding ₹ 50 million awarded to the same entity will also be covered under this paragraph. The above value of ₹ 50 million can be increased depending on the wholesale price index;
(h) Pledging or encumbering any of the assets of the company to any third party other than to lenders funding the Tripura Project cost and other than those arising by operation of law;
(i) Change of any significant accounting principles and practices;
(j) Adoption of annual capital and revenue budgets;
(k) Increase or otherwise alteration in the authorized or issued share capital of company;
(l) Appointment or removal of auditors;
(m) Declaration of dividend;
(n) Listing of shares on any stock exchange; and
(o) Disinvestment of shares.

- *Role of parties*: The parties to the OTPC SHA are required to exercise their powers as shareholders and cause the exercise of the powers by their nominees in meetings of the board of directors of NETCL so as to ensure that NETCL carries on its business in a proper and efficient manner and also to ensure compliance with certain specified principles of good corporate governance including transaction of all business on an arms length basis and in accordance with the policies established by the board of directors from time to time. Our Company, OTPC and the GoT have also undertaken to exercise voting rights at shareholder and board meetings of NETCL so as to ensure the passing of any and every resolution necessary or desirable to procure that the affairs of NETCL are conducted in accordance with the OTPC SHA.

- *Financing*: NETCL will have to obtain 80% of the Tripura Project from financial institutions. The parties are aware that there are limitations placed on our Company with regard to pledging its shares resulting from our previous agreements with World Bank and Asian Development Bank. Hence, any pledge, if so required for security, will be with the prior consent of the above banks.

- *Transfer of shares*: Subject to certain specified exceptions, our Company, OTPC and the GoT cannot transfer any of the shares of NETCL for a period of two years from the date of actual commercial operation of the project. The parties to the Tripura SHA however, will be entitled to transfer any of its shares in NETCL after the above lock-in period provided that the other shareholders are first given the right of first refusal.

- *Termination*: The agreement may be terminated by the parties' mutual written consent, any party going into liquidation or insolvency, either party's failure to meet its payment obligations towards equity contribution in case of offer of additional shares.

B. Implementation and Transmission Service Agreement

NETCL has entered into an Implementation and Transmission Service Agreement ("**ITS Agreement**") dated February 3, 2009 with Assam Electricity Grid Corporation Limited, Tripura State Electricity Corporation Limited, Meghalaya SEB, Electricity Department (Government of Manipur), Department of Power (Government of Nagaland), Power & Electricity Department (Government of

Mizoram), Department of Power (Government of Mizoram) and OTPC (collectively, "**the Beneficiaries**"), for the implementation of the Tripura Project.

The ITS Agreement provides for matters relating to the development and construction of the Tripura Project by NETCL and establishes the obligations of each party in relation to the project. The Beneficiaries have agreed to purchase the entire transmission capacity of the Tripura Project from NETCL for a specified transmission charge. The ITS Agreement is valid until the date of commercial operation of the Tripura Project or any other date which may be mutually agreed between the parties for the part dealing with the implementation of the project; and is valid for a period of 25 years for the part dealing with the operation and maintenance of the project.

The ITS Agreement may be terminated by either party to the agreement on the occurrence of an event of default by the other party as specified in the agreements.

**7. National High Power Test Laboratory Private Limited ("NHPTL")**

The MoP in its meeting dated September 1, 2008 had proposed the setting up of a joint venture to be co-promoted by our Company, NHPC, NTPC and Damodar Valley Corporation ("**DVC**"), for setting up a short circuit testing facility and other facilities as may be required.

Consequently, our Company entered into a joint venture agreement dated April 8, 2009 with NHPC, NTPC and DVC to jointly incorporate a private limited company to set up a laboratory for short circuit testing and other facilities and to pursue its objects as elaborated in the memorandum of association of the NHPTL.

NHPTL was incorporated on May 22, 2009 under the Companies Act. NHPTL is authorised to engage in the business of planning, promoting, organizing, establishing, constructing, integrating, and developing on-line high power test laboratory facility in India and/or abroad for testing and certification of short circuit and other testing of electrical equipments. The authorised share capital of NHPTL is ₹ 300 million divided into 30 million equity shares of ₹ 10 each and the paid up capital of NHPTL is ₹ 35 million (divided into 3.5 million equity shares of ₹ 10 each). Our Company holds 875,000 equity shares in NHPTL, i.e. 25% of the issued and paid-up capital of NHPTL. In addition to above 600,000 shares have been received by our Company, however, as on date, they are yet to be allotted.

A. <u>Joint Venture Agreement</u>

On April 8, 2009 we executed a joint venture agreement with NTPC, NHPC and DVC in relation to the incorporation of NHPTL (the "**NHPTL JVA**"). The NHPTL JVA provides that the joint venture company will be incorporated as a private limited company with the registered office in the National Capital Territory of New Delhi. The parties to the NHPTL JVA will fully cooperate with each other with regard to planning and implementation of 'online high power test laboratory'.

The key terms of the NHPTL JVA are set forth below:

- *<u>Share capital and subscription</u>*: The initial authorised share capital of NHPTL will be ₹ 100 million divided into 10,000,000 equity shares of ₹ 10 each. The authorised share capital will be subsequently enhanced up to an amount of ₹ 830 million as and when necessary in accordance with the provisions of the articles of association of NHPTL. The initial paid up capital of NHPTL will be ₹ 10 million comprising 1,000,000 equity shares of ₹ 10 each. The NHPTL JVA provides that 25% of the paid up equity share capital of NHPTL will be subscribed each by our Company, NTPC, NHPC and DVC. The equity shareholding will also be inclusive of the shares held by affiliates/associates of the respective shareholders. If at anytime NHPTL decides to increase its authorised and issued share capital then the parties to the NHPTL JVA will be under contractual obligation to subscribe to such issued share capital in proportion to their respective shareholding. However, no shareholder (including their associates or affiliates), at any point of time, will hold more than 40% of the paid-up share capital of NHPTL. In the event of non-subscription of equity by any of the parties to the NHPTL JVA, the share of capital contribution of such non-subscribing party will be paid by each remaining party in proportion to its agreed shareholding.

- *Board of directors:* The board of directors will comprise not less than four and not more than 15 directors. The parties are entitled to nominate one director each on NHPTL's board, irrespective of the quantum of their shareholding, provided the shareholding of each party does not fall below 10% of the NHPTL's equity paid-up share capital. All directors appointed will be part-time directors. The non executive chairman will be amongst the board of directors of NHPTL for a period of one year and shall be rotated every year amongst the parties. The first chairman will be nominated by NTPC and subsequently by our Company, NHPC and DVC in order of sequence.

- *Reserved matters*: Neither the board of directors of NHPTL nor a committee thereof, nor its chief executive officer, nor any other person acting on behalf of NHPTL will take any action with respect to the following except with the affirmative vote of a majority of directors; and which majority will include affirmative vote of at least one director nominated by each party to the agreement:

  (a) The annual revenue budget of NHPTL;
  (b) The 'five year annual plans' of development, the capital budget of the NHPTL and processing of any modernization, expansion schemes including programme of capital expenditure or purchase of capital equipment which exceeds ₹ 100 million;
  (c) Winding up of NHPTL;
  (d) Any matter relating to the transfer, sale, lease, exchange, mortgage and/or disposal otherwise of the whole or substantially the whole, of the undertaking of NHPTL or part thereof;
  (e) Increase or otherwise alteration in the authorised or issued share capital of NHPTL;
  (f) Induction of new investors;
  (g) Taking of any loan or other borrowing or issue of any debt or other instrument or security carrying the right or option to convert the whole or part thereof or any such instrument or security, as the case may be, or any accrued interest thereon into the shares of NHPTL;
  (h) Any matter relating to:

    (i) The promotion of new company/company(ies) including formation of subsidiary company(ies);
    (ii) Entering into partnership and/or arrangement of sharing profits;
    (iii) Taking or otherwise acquiring and holding shares in any other company;
    (iv) Pledging or encumbering any assets of NHPTL and the issuance of corporate guarantee (other than trade warranties) or incurring of usual liability, except as set forth in the annual operating and capital budgets or as required for the procurement of working capital needs or as may be required by any government authorities or for any tax purposes.
    (v) Recommendations/approvals of dividend by the company; and
    (vi) Arrangement involving foreign collaboration proposed to be entered into by the company.

  (i) Change in the name of NHPTL; and
  (j) Entering into any profit sharing, or any share option or other similar schemes for the benefit of the officers and other employees of NHPTL.

- *Financing*: NHPTL shall meet its own financial requirements without recourse to the parties. It will not be obligatory for the parties to give any guarantee and security for raising of funds by

NHPTL. The parties' financial liability to this agreement will be limited to any unpaid amount of the share capital agreed to be subscribed to by the parties in the agreed proportion. The project is proposed to be financed at a debt equity ratio of 60:40.

- *Competition*: No party, directly or through its affiliates or associates will compete with the business activities of NHPTL without the prior written consent of all the remaining parties. NHPTL will not take up any renovation and modernization business in power plants in India and the SAARC countries.

- *Transfer of shares*: Unless otherwise mutually agreed, none of the parties will transfer, sell, assign, mortgage or otherwise encumber its shareholding or voting rights in NHPTL for an initial lock-in period of five years from the date of incorporation of the NHPTL or establishment of the laboratory, whichever is later. After the lock-in period, no party will sell or otherwise transfer all or any part of the shares owned by it in NHPTL to any person not being an affiliate or associate unless such shares have first been offered to the remaining parties in proportion to their respective shareholding.

- *Termination*: The agreement may be terminated by the parties' mutual written consent, any party going into liquidation or insolvency, or any party committing or knowingly permitting a material breach of any conditions of the agreement which is not cured within the stipulated period. Further, if a party ceases to hold at least 10% of the paid-up equity share capital of NHPTL, all rights of such party under the NHPTL JVA will cease.

- *Role of parties*: The parties to the NHPTL JVA will provide full support so as to make NHPTL a self sustained business entity and a leading organization in its field with a view to improving the profitability of NHPTL's operations and generally to strengthen the operation base of NHPTL. The parties shall fully cooperate with each other with regard to planning and implementation of 'online high power test laboratory'. The parties have also undertaken to exercise their voting rights so as to ensure that the provisions of this agreement are fully complied with, implemented and given effect to.

**8. Energy Efficiency Services Limited ("EESL")**

The Government of India ("**GoI**") set up the Bureau of Energy Efficiency ("**BEE**") on March 1, 2002, under the provisions of Energy Conservation Act, 2001 as a quasi-regulatory body, with a view to regulate and reduce the energy intensity of the Indian economy. BEE mooted the proposal for the incorporation of a company with the name 'Energy Efficiency Services Limited' as an implementation arm of the National Mission of Enhanced Energy Efficiency, which is a part of the National Action Plan on Climate Change. The Secretary, MoP, decided on July 6, 2009 that all promoting Central Public Sector Undertakings ("**CPSU**") will subscribe to equal equity participation, which is ₹ 475 million each, for creating EESL. Consequently, we have entered into a joint venture agreement with NTPC Power Finance Corporation Limited ("**PFC**") and REC.

EESL was incorporated on December 10, 2009 under the Companies Act. EESL is authorised to engage in the business of carrying on and promoting the implementation of energy efficiency projects in India and abroad. The authorised share capital of EESL is ₹ 1,900 million divided into 190 million equity shares of ₹ 10 each and the paid-up capital of EESL is ₹ 1,000.0 million (divided into 100.0 million equity shares of ₹ 10 each). As on September 30, 2010 our Company holds 625,000 equity shares in EESL and on allotment of further equity shares for which share subscription money has already been paid, our Company will hold 25,000,000 equity shares in EESL, i.e., 25.0% of the issued and paid up capital of EESL.

On November 19, 2009, our Company executed a joint venture agreement with NTPC, PFC and REC in relation to the incorporation of EESL (the "**EESL JVA**"). The EESL JVA provides that the joint venture company will be incorporated as a public limited company with the registered office in the National Capital Territory of New Delhi. The parties have agreed to fully cooperate with each other with regard to planning and implementation of 'energy efficiency and energy conservation' projects in India and abroad.

The key terms of the EESL JVA are set forth below:

- *Share capital and subscription*: The initial authorised share capital of EESL will be ₹ 100 million divided into 10,000,000 equity shares of ₹ 10 each. The authorised share capital will be subsequently enhanced up to an amount of ₹ 1,900 million as and when necessary in accordance with the articles of association of EESL and the provisions of the EESL JVA. The initial paid up capital of EESL will be ₹ 25 million comprising 2,500,000 equity shares of ₹ 10 each. Our Company, NTPC, PFC and REC will each subscribe to and hold 25% of the paid up equity share capital of EESL shall. The equity shareholding will be inclusive of equity shares held by affiliates/associates of the respective shareholders. We will maintain our shareholding at this level by subscribing to any future issue of equity shares of EESL, in proportion to our current share holding. However, no shareholder, at any point of time, will hold more than 40% of the paid-up share capital of EESL. In the event of non-subscription of equity by any of the parties to the EESL JVA, the share of capital contribution of such non-subscribing party will be paid by each remaining party in proportion to its agreed shareholding.

- *Board of directors*: Initially, the board of directors will comprise six directors. The total strength of the board of directors will be between four and 15 directors. As long as any shareholder holds at least 10% of the paid-up equity share capital of EESL, such shareholder will have the right to nominate a director on the board of directors of EESL and shall also determine the period for which its respective nominees will hold office. All directors are to be appointed as part-time directors. Nomination of the non-executive chairman, to be appointed for a period of two years, will be rotated amongst our Company, NTPC, PFC and REC with NTPC nominating the first chairman. Further, the MoP will have the right to nominate two part-time directors on the board of EESL.

- *Reserved matters*: Neither the board of directors of EESL nor a committee thereof, nor its chief executive officer, nor any other person acting on behalf of EESL will take any action with respect to the following matters except with the affirmative vote of the a majority of directors and which majority will include the affirmative vote of at least one director nominated by each party to the agreement:

  (a) The annual revenue budget of EESL;
  (b) The 'five year annual plans' of development, the capital budget of the EESL and processing of any modernization, expansion schemes including programme of capital expenditure or purchase of capital equipment which exceeds ₹ 100 million;
  (c) Winding up of EESL;
  (d) Any matter relating to the transfer, sale, lease, exchange, mortgage and/or disposal otherwise of the whole or substantially the whole, of the undertaking of ESSL or part thereof;
  (e) Increase or otherwise alteration in the authorised or issued share capital of ESSL;
  (f) Induction of new investors;
  (g) Taking of any loan or other borrowing or issue of any debt or other instrument or security carrying the right or option to convert the whole or part thereof or any such instrument or security, as the case may be, or any accrued interest thereon into the shares of EESL;
  (h) Change in the name of EESL;
  (i) Entering into any profit sharing, or any share option or other similar schemes for the benefit of the officers and other employees of EESL; and

(j) Any matter relating to:

(i) The promotion of new company/company(ies) including formation of subsidiary company(ies);
(ii) Entering into partnership and/or arrangement of sharing profits;
(iii) Taking or otherwise acquiring and holding shares in any other company; and
(iv) Pledging or encumbering any assets of EESL and the issuance of corporate guarantee (other than trade warranties) or incurring of usual liability, except as set forth in the annual operating and capital budgets or as required for the procurement of working capital needs or as required by any government authorities or for any tax purposes.

- *Role of parties*: The parties to the EESL JVA have agreed to provide full support so as to make EESL a self sustained business entity and a leading organization in its field and related activities with a view to improving the profitability of EESL's operations and generally to strengthen the operation base of EESL. The parties have agreed to fully cooperate with each other with regard to planning and implementation of 'energy efficiency and energy conservation' projects in India and abroad. The parties have also undertaken to exercise their voting rights so as to ensure that the provisions of this agreement are fully complied with, implemented and given effect to.

- *Transfer of shares*: Unless otherwise mutually agreed, none of the parties will transfer or otherwise encumber its shareholding in EESL for a period of five years from the date of incorporation, provided that if any party intends to transfer any equity shares to a third party, the selling party is required to first offer such equity shares to the remaining parties in proportion to their shareholding, at book or fair value, whichever is higher. If the non-selling parties do not accept the offer, the selling party will be entitled to transfer the offered equity shares to the proposed transferee on terms no more favourable and at no higher price than those offered to the non-selling party. If the selling party fails to transfer the offered equity shares to the proposed transferee within 90 days of it becoming entitled to sell the shares to any person, such selling party will again be required to first offer the equity shares to a party to the agreement.

- *Termination of rights*: If any party ceases to hold at least 10% of the paid-up share capital of EESL, all rights of such party under the agreement will terminate. The non exiting parties will have an obligation to purchase and/or to name a purchaser of all the shares and any financial interest of the exiting party, at a fair value determined by an independent chartered accountant.

- *Competition*: EESL will not take up any renovation and modernization business in power plants in India and the SAARC countries.

## 9. Powergrid IL&FS Transmission Private Limited ("PITPL")

Pursuant to a proposal submitted by Infrastructure Leasing & Financial Services Limited ("**IL&FS**") to our Company for jointly undertaking development of transmission/sub-transmission projects, and transmission system with neighbouring countries outside India as well as SPUs within India, we have entered into a joint venture with IL&FS for establishing the joint venture company that will undertake activities of project development of intra-state transmission and sub-transmission works for SPUs and projects outside India (the "**IL&FS Development Project**").

PITPL was incorporated on November 27, 2007 under the Companies Act. PITPL is authorised to engage in the business of transmission projects and transmission systems. The authorised share capital of PITPL is ₹ 0.5 million divided into 50,000 equity shares of ₹ 10 each and the paid up capital of PITPL is ₹ 0.5 million (divided into 50,000 equity shares of ₹ 10 each). Our Company holds 25,000 equity shares in PITPL, i.e., 50% of the issued and paid-up capital of PITPL.

A. Shareholders' Agreement

Our Company, IL&FS and PITPL have entered into shareholders' agreement dated January 11, 2008, in relation to the IL&FS Development Project. ("**IL&FS SHA**").

The key terms of the IL&FS SHA are set forth below:

- *Share capital and subscription*: Our Company will subscribe to and hold 50% of the paid-up equity share capital of PITPL while the remaining paid-up equity share capital of PITPL will be subscribed to and held by IL&FS. We have the right to maintain our shareholding at this level by subscribing to any future issue of shares of PITPL, in proportion to our current share holding. Unless the parties have accorded their consent in writing, any further issue of equity shares will be made in such manner so as to ensure that the participation by the parties at all times remain in the same proportion. Neither of the parties will without the written consent of the other party alter its shareholding in PITPL.

- *Board of directors:* The board of directors of PITPL will comprise a number of directors in accordance with their memorandum and articles of association. The initial number of directors will be four directors of which our Company and IL&FS each will have the right to nominate two directors on the board of PITPL. Further, the Chairman will be from amongst the directors nominated by our Company. The managing director of PITPL will be from amongst the directors nominated by IL&FS. The chairman and the managing director so appointed will enjoy a term of three years. The nomination of the chairman and managing director will rotate between our Company and IL&FS for each term. Moreover, any shareholder apart from IL&FS and PGCIL is entitled to nominate one director if its aggregate shareholding is not less than 10%.

- *Reserved matters*: The affirmative vote of at least one director nominated by our Company and IL&FS is required at the meetings of the board of directors of PITPL, for the following matters:

  (a) Any change in the share capital structure of the company including but not limited to any consolidation, sub-division or conversion of any of the company's share capital or any alteration of any of the rights attached to the shares or subscription and payment of share capital or issue of shares with different rights;
  (b) Any change in the major activities or scope of the business of the Company;
  (c) The provision of any corporate guarantees or the creation of any mortgage, charge, lien or any other encumbrance on any assets of the company in favour of a third party;
  (d) Sale, transfer, lease, assign or disposal of any material property and/or assets of the company (other than transfer of a project to a project SPV and the selection of an implementing agency and vesting of a project with such implementing agency and sale of shares in a project SPV to the implementing agency) for any interest therein or contract so to do otherwise than in the ordinary course of business;
  (e) Establishment of subsidiaries or acquisition of, or investment in any other company or legal entity;
  (f) Recommendation of any form of financial restructuring (including initial public offer) or recommendation of dissolution of the company except when otherwise required by applicable law;
  (g) Approval of any contract/agreement to be entered by the company or any expenditure of value in excess of ₹ 0.5 million;
  (h) Appointment of directors;
  (i) Further issuance of equity shares of the company;
  (j) Appointment/removal of auditors;
  (k) Shares buy back by the company;
  (l) Approval of foreign collaboration;