
LOAN NUMBER 2183-REG(SF)

**GUARANTEE AGREEMENT
(Special Operations)**

(Establishment of the Pacific Aviation Safety Office Project)

between

INDEPENDENT STATE OF PAPUA NEW GUINEA

and

ASIAN DEVELOPMENT BANK

DATED 27 October 2005

GAG:PNG 37449

**GUARANTEE AGREEMENT
(Special Operations)**

GUARANTEE AGREEMENT dated 27 October 2005 between INDEPENDENT STATE OF PAPUA NEW GUINEA (the "Guarantor") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a Loan Agreement of even date herewith between ADB and the Pacific Aviation Safety Office (the "Borrower"), ADB has agreed to make to the Borrower from ADB's Special Funds resources a loan in various currencies equivalent to One Million Thirty-Three Thousand Special Drawing Rights (SDR 1,033,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor, together with the other PASO guarantors of the Independent State of Kiribati, the Independent State of Samoa, and the Republic of Vanuatu (each, individually, a "PASO Guarantor" and, together, the "PASO Guarantors"), agrees to guarantee the obligations of the Borrower in respect of such loan as hereinafter in this Guarantee Agreement set forth; and

(B) the Guarantor, in consideration of ADB's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 May 2004 (the "Loan Regulations"), are hereby made applicable to this Guarantee Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modification:

Section 10.02 is modified by inserting the following language: "The obligations of the Guarantor under the Guarantee Agreement will not be affected by the unenforceability, illegality or invalidity of the PICASST."

Section 1.02. Wherever used in this Guarantee Agreement, unless the context otherwise requires, the terms defined in the Loan Agreement and in the Loan Regulations (as so defined) shall have the respective meanings therein set forth.

ARTICLE II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part contained in this Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not merely as surety, the due and punctual payment of the principal of, and the interest on, the Loan, and the premium, if any, on the prepayment of the Loan, all as set forth in the Loan Agreement; provided, however, that the maximum total amount to be paid by the Guarantor under this Guarantee Agreement shall not exceed twenty-five percent (25%) of the principal of, and the interest on, the Loan, and the premium, if any, on the prepayment of the Loan (such amount the "Maximum Guarantee Amount").

Section 2.02. The Guarantor acknowledges that ADB shall have the sole discretion to call on any one or more of the PASO Guarantors under their respective Guarantee Agreements with respect to the due and punctual payment by the Borrower of the principal of, and the interest on, the Loan, and the premium, if any, on the prepayment of the Loan, subject to the Maximum Guarantee Amount for each such PASO Guarantor.

Section 2.03. The Guarantor shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the financial and economic conditions in the territory of the Guarantor and the international balance-of-payments position of the Guarantor and (ii) any other matters relating to the purposes of the Loan.

Section 2.04. The Guarantor shall (a) provide, in a timely manner (i) all of its counterpart funds required to be provided pursuant to the terms of the PICASST and the PASO Constitution and (ii) all fees for services rendered by the Borrower to the Guarantor and its agencies and (b) use its best efforts to ensure that all other members of PASO meet their respective financial obligations to the Borrower in a timely manner.

Section 2.05. The Guarantor shall not take any action, or permit any of its political subdivisions or agencies or any agency of any such political subdivisions to take any action, which would prevent or interfere with the successful carrying out of the Project or the successful operation of the Project facilities, or the performance by the Borrower of its obligations under the Loan Agreement.

Section 2.06. (a) The Guarantor shall from time to time take such action as may be necessary or appropriate on its part to ensure prompt performance by the Borrower of the Borrower's obligations under Schedule 5 to the Loan Agreement.

(b) The Guarantor shall perform all the obligations set forth in Schedule 5 to the Loan Agreement to the extent that they are applicable to the Guarantor.

Section 2.07. (a) It is the mutual intention of the Guarantor and ADB that no other external debt shall have any priority over the Guarantee by way of a lien on the assets of the Guarantor. To that end, the Guarantor undertakes (i) that, except as ADB may otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and interest and other charges on, the Maximum Guarantee

Amount; and (ii) that in creating or permitting the creation of any such lien, to make express provision to that effect.

(b) The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) The term "assets of the Guarantor" as used in paragraph (a) of this Section includes assets of any political subdivision or any agency of the Guarantor and assets of any agency of any such political subdivision, including the institution performing the functions of a central bank for the Guarantor.

ARTICLE III

Section 3.01. The Minister of Finance and Treasury of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.02 of the Loan Regulations.

Section 3.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Guarantor

Department of Treasury
Vulupindi Haus
P.O. Box 710
Waigani, National Capital District
Papua New Guinea

Facsimile Numbers:

(675) 328-8804
(675) 328-8808

For ADB

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

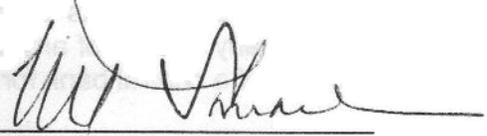
Facsimile Numbers:

(632) 636-2444
(632) 636-2442

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

INDEPENDENT STATE OF PAPUA
NEW GUINEA

By


SIR MICHAEL SOMARE
Prime Minister

ASIAN DEVELOPMENT BANK

By


JOSEPH B. EICHENBERGER
Vice President