

**Sample 2**

**FORM OF PARENT COMPANY GUARANTEE**  
**(To be completed on letterhead of**  
**Tenderer's Ultimate Parent Company)**

From: [Insert Contractors Parent Company Name]

Having its office at:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

As holding company for [Insert Contractors Local Company Name]

Having its office at:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date:

To:

[Insert Name and full address of Client]

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Ref.: Contract No. \_\_\_\_\_ for [Insert Name of Works/Services]

With reference to the accompanying Tender ("TENDER") for the subject, we, as [Insert Contractors Parent Company Name], parent company of [Insert Contractors Local Company Name] (CONTRACTOR), do hereby enter into the following unconditional and irrevocable undertaking with [Insert Name of Client] ("COMPANY"), that on condition that COMPANY enters into a Contract for the subject [Works/Services] with CONTRACTOR ("CONTRACT") and in consideration of same:

1. CONTRACTOR shall perform all of its obligations contained in the said CONTRACT.
2. If CONTRACTOR shall in any respect be determined by COMPANY to have failed to perform the said obligations contained in the said CONTRACT or commits any breach thereof, we shall, on simple demand from COMPANY, ourselves promptly perform or take whatever steps may be necessary to achieve performance of the obligations of CONTRACTOR under the CONTRACT and shall indemnify and keep indemnified COMPANY against any loss, damages, costs and expenses, howsoever arising from the said failure or breach of CONTRACTOR as determined by COMPANY, as if we were the original obligor.
3. We shall not be discharged or released from our undertaking hereunder by any waiver or forbearance by COMPANY whether as to payment, time for performance or otherwise.

4. The expressions COMPANY, WORK and CONTRACT and other terms or expressions in capital letters shall have the meaning respectively ascribed to them in the FORM OF CONTRACT.
5. This Guarantee shall be governed by and construed in accordance with the laws of [Insert Name of the Country or Law].

Yours faithfully,

\_\_\_\_\_

Signed by: \_\_\_\_\_

Date: \_\_\_\_\_

For and on behalf of: \_\_\_\_\_  
(Name of TENDERER's parent company)

\_\_\_\_\_  
\_\_\_\_\_

## Parent Company Guarantee

Parent Company Guarantee is a written undertaking by Contractors ultimate parent to Client, guaranteeing performance and undertaking to complete obligations under the Contract in the event of default in Contractor's performance (a subsidiary of such parent).

Unlike a bank guarantee that is issued by a bank and has financial value, Parent Company Guarantees do not have a financial value but serve as an undertaking only.

The guarantee letter is normally executed/signed by the directors of the company authorised to accept liabilities. In case Joint Ventures Parent Company Guarantee should be obtained from each of the companies that are part of the Joint Venture.

It should be noted that legally, Parent Company Guarantee is not part of the Contract since they are agreements or guarantees given by parties other than the Contracting parties. However they are material to the performance of the contract and hence can be included for reference by the Contracting parties.

Parent Company Guarantees are normally sought from Contractors, especially where the company entering into the Contract has limited assets while being a part of a larger group. Such companies may not have a capital of their own as all their revenues and profits could be repatriated back to their parent company and Clients do not get a proper chance to contract with the ultimate parent or holding company. It could also be that the Contractor present in a local location could have partnerships that might not be as easily trusted by a Client with respect to its technical, financial or other capabilities as much as it would trust Contractors parent company.

Bank guarantees are substituted by Parent Company Guarantees in situations where there is not a strong need felt for having in place a financial guarantee especially when the Contractor is reputed/well known to the Client.

In case the subsidiary is a mere marketing front for the parent company and the subsidiary is completely dependent on its parent company financially and for resources, it is strongly suggested to contract with the ultimate holding or parent company. In the event of any legal action, Client would have direct access to the resources of the parent or ultimate holding company in resolving or overcoming any disputes which may arise. This would not be the case when contracting with a subsidiary company which did not retain any of its profits and which could be wound up by a holding or parent company in the event of business difficulties.

A few typical format's of a Parent Company Guarantee are given below.