(Itaparica Resettlement and Irrigation Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 7, 1987

GUARANTEE AGREEMENT

AGREEMENT, dated December 7, 1987, between FEDERATIVE REPUBLIC OF BRAZIL (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor, Centrais Eletricas Brasileiras S.A. - ELETROBRAS (the Borrower) and Companhia Hidro Eletrica do Sao Francisco (CHESF), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement of even date herewith between the Bank and the Borrower, have requested the Bank to assist in the financing of the Project; and

(B) by the Loan Agreement, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to one hundred thirty-two million dollars ($132,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and
WHEREAS the Guarantor, in consideration of the Bank’s entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower and CHESF, all as set forth in the Loan Agreement and the Project Agreement, respectively.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower or CHESF will be inadequate to meet the estimated expenditures required for the carrying out of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or CHESF or cause the Borrower or CHESF to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor shall:

(a) cause the 1984-1988 Investment Plan to be carried out in accordance with appropriate administrative, financial, engineering and public utility practices and shall provide or cause to be provided, the funds and other resources required for the purpose;

(b) not later than November 30 of each year, prepare and furnish to the Bank an updated five-year investment program for the electric power sector and a detailed financial plan for the investments included in such program, both to be satisfactory to the Bank;

(c) cause the Five-Year Investment Program to be carried out in accordance with appropriate administrative, financial, engineering and public utility practices and shall provide, or cause to be provided, the funds and other resources required for the purpose in accordance with the financial plan referred to in paragraph (b) of this Section.

Section 3.02. The Guarantor shall take all action required to enable the Electric Power Sector Companies to carry out a program, satisfactory to the Bank, aimed at: (a) obtaining the resources necessary to carry out the Five-Year Investment Program; and (b) reducing the share of borrowings as a source of financing for such
companies’ investments.

Section 3.03. (a) The Guarantor covenants that it will not take, or cause or permit any of its agencies to take, any action which would prevent or interfere with the performance by CHESF of its obligations contained in the Project Agreement and will take or cause to be taken all reasonable action necessary or appropriate to enable CHESF to perform such obligations.

(b) Without limitation or restriction upon the provisions of paragraph (a) of this Section, the Guarantor shall: (i) cause the agency or agencies of the Guarantor responsible for the setting and adjustment of CHESF's rates for the sale of electricity and for transfers of funds from the Global Guarantee Fund to act in respect of any application of CHESF: (A) for the setting and adjustment for such rates within a period of not more than 90 days after receipt of such application; and (B) for any such transfer of funds at such time as may be required to supplement CHESF’s revenues, provided that CHESF complies with the Guarantor’s requirements therefor; and (ii) take, or cause to be taken, upon request, all reasonable action required for the prompt issuance to CHESF of such import and other permits and licenses as shall be necessary for the acquisition and importation of goods and services required for carrying out the Project in accordance with the provisions of the Project Agreement.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Ministro da Fazenda of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Ministerio da Fazenda
Esplanada dos Ministerios
70048 Brasilia D.F.
Brazil

Cable address: Telex:
MINIFAZ 0611506 MFAZ BR Brasilia

For the Bank:

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

Cable address: Telex:
INTBAFRAD 440098 (ITT)
Washington, D.C. 248423 (RCA) or 64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL
By /s/ Cid Heraclito de Queiroz  
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain
Regional Vice President
Latin America and the Caribbean