

CONFORMED COPY

LOAN NUMBER 3936 RO

Guarantee Agreement

(Power Sector Rehabilitation and Modernization Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 29, 1995

LOAN NUMBER 3936 RO

GUARANTEE AGREEMENT

AGREEMENT, dated August 29, 1995, between ROMANIA (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and Regia Autonoma de Electricitate (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a Loan in various currencies equivalent to one hundred ten million dollars (\$110,000,000), 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 modifications set forth in Section 1.01 of the Loan Agreement (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, in 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

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, all as set forth in the Loan Agreement.

Section 2.02. The Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of Parts B and C of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor shall carry out or cause to be carried out Part A of the Project with due diligence and efficiency and in conformity with appropriate practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. The Guarantor shall carry out the obligations set forth in Sections 9.06 and 9.07 of the General Conditions (relating to plans and schedules and records and reports, respectively) in respect of Part A of the Project.

Section 3.03. The Guarantor shall: (i) appoint consultants, whose qualifications and terms of reference shall be satisfactory to the Bank, to carry out a study of options of long-term structure for the power sector, and ensure its completion by September 30, 1996, or such later date as the Bank may agree; (ii) no later than three months after the conclusion of the assessment of the options of the long-term sector structure (Phase I of the study), or such later date as the Bank may agree, inform the Bank of its decision on the selected long-term structure for the power sector in Romania; (iii) complete a draft electricity law for submission to the Romanian Parliament no later than December 31, 1996; (iv) no later than three months after the submission to the Guarantor of the consultants' final report on the study of options of

long-term structure for the power sector, provide to the Bank an action program, satisfactory to the Bank, for the implementation of the long-term sector structure; and (v) implement said action program.

Section 3.04. The Guarantor shall take all necessary measures to ensure that its departments, agencies and enterprises, as well as local authorities, settle the Borrower's electricity and thermal energy bills within no more than 60 days from the date of such bills.

Section 3.05. The Guarantor shall review annually with the Bank, no later than October 31 of each year, the progress in the implementation of the Power Sector Strategy and policy framework, and shall take corrective and other policy measures to ensure the achievement of the strategic objectives set forth in said Power Sector Strategy.

Section 3.06. The Guarantor shall: (i) promptly after the commissioning of the first unit of the Cernavoda nuclear power station, inform the Bank of the commissioning of said unit; (ii) over a period of eighteen months after the commissioning of said unit, take all necessary measures, agreeable to the Bank, to separate all nuclear power activities from the power activities of the Borrower; and (iii) no later than twenty months after the commissioning of said unit, establish an independent public entity to carry out such nuclear power activities.

Section 3.07. The Guarantor shall progressively reduce the level of cross-subsidization of electricity prices paid by households over a period of four years from the date of this Agreement, so as to ensure that by December 31, 1999, all such subsidies shall have been eliminated.

Section 3.08. The Guarantor shall maintain consumer electricity prices corresponding on average to not less than the equivalent of \$50 (including VAT) per megawatt-hour through periodic adjustments to the consumer electricity prices in accordance with a timetable acceptable to the Bank.

Section 3.09. The Guarantor shall adjust, pursuant to guidelines acceptable to the Bank, the consumer electricity prices if changes to the level prevailing on the date immediately preceding the adjustment of the consumer electricity prices shall have occurred in the international market prices of the main fuels (coal, natural gas and fuel oil) used by the Borrower for power generation.

Section 3.10. The Guarantor shall: (i) by September 30, 1995, or such later date as the Bank may agree, appoint consultants, whose qualifications and terms of reference shall be satisfactory to the Bank, to carry out an electricity and thermal energy pricing study; (ii) promptly upon its completion, discuss with the Bank the findings and the recommendations of said study; and (iii) according to a timetable acceptable to the Bank, provide to the Bank a satisfactory program for the implementation of the actions agreed as a result of said study and discussions with the Bank.

Section 3.11. The Guarantor shall: (i) by September 30, 1995, or such later date as the Bank may agree, appoint consultants, whose qualifications and terms of reference shall be satisfactory to the Bank, to carry out a long-term least-cost power generation development study; and (ii) promptly upon its completion, discuss with the Bank the findings and the recommendations of said study.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Minister of Finance 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:

The Ministry of Finance
17, Apolodor Street
Bucharest
Romania

Telex:

11239

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	197688 (TRT)
Washington, D.C.	248423 (RCA)
	64145 (WUI) or
	82987 (FTCC)

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.

ROMANIA

By /s/ Ion Gorita

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rachel Lomax

Acting Regional Vice President
Europe and Central Asia

