

CONFORMED COPY

LOAN NUMBER 4551-IRN

Guarantee Agreement

(Tehran Sewerage Project)

between

ISLAMIC REPUBLIC OF IRAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated June 26, 2000

LOAN NUMBER 4551-IRN

GUARANTEE AGREEMENT

AGREEMENT, dated June 26, 2000 , between The ISLAMIC REPUBLIC OF IRAN (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and the Tehran Sewerage Company (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; and

(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 equivalent to one hundred and forty five million dollars (\$145,000,000), 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 for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), 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 and 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, and the following additional term has the following meaning:

"TSE" means the Tehran Stock Exchange.

## 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. 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 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 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 ensure that for disbursement in local currency, the TSE rate, prevailing at the time of disbursement, shall apply.

Section 3.02. The Guarantor shall ensure continuation through Project implementation of the financing of household connections on credit terms, as agreed with the Bank.

Section 3.03. The Guarantor shall ensure that TPWSC: (a) takes all measures to secure full recovery by the Borrower of its total operations and maintenance and debt service, in accordance with the procedures set forth in Article 4.03 of the Loan Agreement, and (b) transfers annually, until completion of the Project, at least 15% of TPWSC total annual revenues to the Borrower.

Section 3.04. The Guarantor shall ensure that TPWSC and the Borrower: (a) carry out a study of the structure and levels of the Borrower's tariffs, and furnish to the Bank such study for review and comments; and (b) introduce a new tariff structure reflecting the results thereof, all in accordance with Section 4.04 of the Loan Agreement.

Section 3.05. The Guarantor shall: (i) maintain the EMP at all times during Project implementation; (ii) adopt, no later than January 1, 2003, and thereafter duly enforce, appropriate guidelines, agreed with the Bank, on the discharge of industrial effluents into a wastewater collection system; (iii) ensure that no industries discharging toxic substances for treatment processes are connected to the system; and (iv) maintain quality level acceptable to the Bank for effluent and sludge, including that generated from the sewerage treatment plant, and reused in agriculture.

## ARTICLE IV

### Representative of the Guarantor; Addresses

Section 4.01. The Ministry of Economic Affairs and 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:

Ministry of Economic Affairs and Finance  
Davar Avenue  
Tehran  
Islamic Republic of Iran

Facsimile:

98 21 39 17 043  
98 21 39 01 033  
98 21 39 10 024

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:

Facsimile:

INTBAFRAD                      248423 (MCI); or                      (202) 477-6391  
Washington, D.C.                      64145 (MCI)

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.

ISLAMIC REPUBLIC OF IRAN

By /s/ Mohammad Khazaei Torshizi

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Inder K. Sud

Acting Regional Vice President  
Middle East and North Africa

