

ENVIRONMENTAL AND SOCIAL STRATEGY

A. Environmental and Social Compliance Status

In March 2004, the Ministry of Energy and Mines and the Technical Planning Coordinating Committee for the Expansion of the Systems (Comite Tecnico Coordenador do Planejamento da Expansao dos Sistemas – CCPE) developed the Technical and Economic Feasibility Study for the North-Northeast Transmission Line System. The study indicated that with the existing Tucuruí Hydropower plant (in the North Region) reaching its Phase Two capacity in 2006, approximately 4125 MW would be added to the current 4245 MW, totaling approximately 8370 MW. Approximately 50% of this energy was considered surplus energy and therefore available to be exported from the North Region to the Northeast region and to other interconnection systems.

Previous studies had indicated that to transfer surplus energy to the Northeast region it was required to expand the North/Northeast Interconnection System by implementing (a) the 2nd 500kV Circuit Teresina – Sobral – Fortaleza (bidded out in September 2003) and (b) the implementation in 2007 of the 500 kV Circuit Colinas – Ribeiro Gonçalves – S.J.Piauí – Sobradinho.

In May 2002, Eletronorte developed the initial environmental and technical studies for the preliminary alignments for the TLs Colinas / Sobradinho and Colinas / Itumbiara, as part of the Transmission System associated to the Belo Monte Hydropower Plant. Additional environmental studies to support the preliminary route selection of the proposed transmission line were developed in June 2004: (a) Environmental Baseline of the 500 kV Transmission Line Ribeiro Gonçalves (PI)/ Sobradinho (BA) Volume A (text) and Volume B (maps); and (b): Report of the Preliminary Route Selection and Environmental Baseline of the 500kV Colinas - Sobradinho TL. The preliminary route selection was also based on an overflight (2002) followed by a land reconnaissance in 2004.

These studies indicate that the Project is being developed to respond to the existing installed hydropower plants' capacity and not to support the expansion of the hydropower generating system.

The bidding documents require that the holder of the Contract must comply with the legal requirements in the Brazilian environmental legislation, including obtaining all the required environmental permits established in the Brazilian Environmental Legislation: (i) Preliminary (or Previous) Permit (LP) in the preliminary phase of the planning of the activity. The LP is issued upon approval of the EIA prepared by the proponent and contains the basic requirements to be met regarding site and alignment selection, installation and operation phases, observing the municipal, state and federal land use plans; (ii) Installation Permit (LI) authorizing the start of construction, according to the specifications contained in the approved Basic Environmental Design (Projeto Basico

Ambiental -PBA); and (iii) the Operating Permit (LO) authorizing, after the required inspections by the environmental agencies, the start of operation of the activity.

Although there are state environmental permits required, in the particular case of the Expansion of the North/Northeast Interconnection System, the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis (IBAMA) is responsible for issuing the environmental permits (after the no-objection from the state environmental agencies and any other agency involved at the federal or state levels, including FUNAI if impacts to any indigenous territories is identified in the Environmental Impact Assessment –EIA that will be developed as part of the requirements for the LP. The EIA has not yet been developed and none of the environmental permits have been obtained. Nevertheless, The Borrower has already received the IDB EIA Guidelines and was required to follow them. The Bank will review the EIA scope and the EIA contract to ensure the Borrowers consultants follow the guidelines.

With regard to public disclosure and consultation, Brazilian environmental legislation requires that both the request for the LP be made public and that the EIA be disclosed for comments for a period not smaller than 45 days prior to the issuance of the permit. If a Public Hearing is requested within the disclosure period, the Licensing Agency must hold a Public Hearing and consider the results of the Public Hearing in the issuance of the LP.

However, as part of the Bank's approach to information disclosure and consultation, even when a Public Hearing is not requested, the Borrower will be required to develop a Social Communication Plan to ensure public disclosure and consultation throughout the entire project in both stages (construction and operation). In addition, the Borrower will be required by the IDB to make the EIA public prior to the due-diligence mission (Analysis Mission) in compliance with the IDB Information Disclosure Policy (OP-102).

B. Potential Impacts and Risks and Associated Control Measures

The proposed 937 km TL extends across four states – Tocantins, Maranhão, Piauí and Bahia. The preliminary baseline developed by CCPE indicates that the TL will cross a region of Cerrado vegetation (a savannah-type vegetation) that has been significantly deforested by cattle breeding and agriculture activities (in spite of the low fertility of the soils in the affected area). Nevertheless, native vegetation (which is protected by the Forestry Code – Law 4771/65) still remains in the higher portions of the mountains and along the rivers and water bodies. The TL will also cross the Tocantins River and the Parnaíba River and will make use of existing roads for access during construction, operation and maintenance.

The states crossed by the TL have their economy based on agriculture and cattle breeding, in the rural areas, and commerce and services in the urban areas. The municipalities directly affected by the TL alignment total 172,947 inhabitants, of which 116,524 are located in the urban areas, and 56,423 in the rural zones, where the ROW is projected. Nevertheless, the detailed studies and the Environmental Impact Assessment (EIA) that will be prepared by the Borrower will develop more detailed environmental

and social baseline data, assess the potential negative environmental and social impacts and propose alternative routings, when and if necessary. When alternative routing proves not feasible, appropriate environmental and social mitigation and compensation measures will be developed.

In general, the impacts from transmission lines and associated infrastructure are more relevant during the construction phase and more intense within the area of immediate influence of the transmission lines' ROW and substations. During construction, the principal environmental, social, and health and safety impacts from the Project are likely to be typical construction impacts of large infrastructure works, including impacts from limited deforestation for the ROW and access roads and the associated impacts on fauna; potential erosion and sedimentation; potential contamination of water and soils by construction waste; potential social impacts from construction and workers' campsites; impacts on archaeological sites; and impacts of easement of the ROW. Health and safety impacts of construction of transmission lines are also typical, with the principal risks being falling from heights and electrocution. These impacts are likely to be temporary and mitigable by standard environmentally sound construction practices and adequate environmental, social health and safety management procedures. Although indigenous groups are important in the Tocantins State, the preliminary studies developed for the route selection have not identified any interference with indigenous territories. Similarly, involuntary resettlement is not anticipated. Nevertheless, detailed studies will be developed as part of the EIA to further identify any potential impacts on indigenous lands and involuntary resettlement associated to the construction and operation of the TL.

During operations, the principal impacts are related to the generation of electromagnetic fields, limited and selective clearing of vegetation for ROW maintenance, impacts related to access roads (if it is the case), disturbance due to people and equipment access for maintenance purposes, and small quantities of wastes generated in substations. In addition, the Borrower will be required by the IDB to identify any potential environmental, social, and /or health and safety liabilities that may be present in the existing facilities (e.g. PCB containing equipment in the existing substations of Colinas, S.J. Piauí and Sobradinho) and to implement a plan to correct any such liability.

The majority and most relevant impacts of the transmission lines can be either avoided or significantly reduced through careful environmental and social planning of the route selection and incorporation of environmental standards into project engineering. According to Brazilian legislation the Borrower will develop as part of the EIA specific environmental management programs (Projeto de Gestão Ambiental – PGA), including mitigation measures and monitoring programs. Additionally, the Bank will require that the EPC Contractor (prior to construction) and the operator (prior to operation) develop expanded and detailed environmental and social and health and safety management plans, including mitigation measures and monitoring, and social communication plans. Also, both the EPC and the operator will be required by the Bank to implement environmental and health and safety management systems compliant with ISO14001 for environment and BS8000 and OSHA for health and safety. In addition, as per the license contracts, contractors and operators must comply with all applicable local environmental, social,

health and safety, and labor laws and regulations and with the environmental, social, health and safety management plans developed to the satisfaction of IDB.

B. Environmental and social strategy

The Bank, as part of the due-diligence process, will analyze the environmental and social aspects of the project and prepare a project Environmental and Social Management Report (ESMR) for review and approval by the Bank's Committee on Environment and Social Impacts (CESI). The environmental and social due diligence will specifically include the components listed below:

- An assessment of project compliance status with the applicable country (national, state, and municipal) environmental, social, and health and safety regulatory requirements (e.g., laws, regulations, standards, permits, authorizations, applicable international treaties/conventions, etc.), in particular the Brazilian EIA requirements; project-specific legal requirements (e.g., concession contract, etc.); and any applicable Bank environmental and social policy, in particular the OP-102 (Public Disclosure and Information) and the OP-710 (Policy on Involuntary Resettlement).
- An evaluation of the proposed Project EIA to confirm that the Project's direct and indirect, short and long-term and any cumulative environmental and social impacts have been properly identified and evaluated, in particular any potential resettlement, and potential impacts on sensitive areas (migratory birds routes and indigenous peoples, among others, although these impacts have not been identified in the preliminary studies that have already been performed).
- An evaluation to ensure adequate environmental and social mitigation measures and monitoring, in terms of their completeness, sufficiency of detail, ability to implement, cost, definition of responsibility, schedule, and quality control.
- An evaluation to ensure adequate health and safety plans and procedures, including their technical adequacy given the potential project-specific health and safety risks, adequate level of training to be performed, and sufficient resources to be made available to ensure adequate implementation.
- An evaluation to confirm adequate contingency plans (i.e., emergency and spill plans at substations), including confirmation that all relevant project-specific environmental risks have been identified, proper procedures have been developed (in particular for river crossings), and sufficient resources will be made available to ensure adequate implementation.
- An evaluation of project-related information disclosure and public consultation activities that have been performed and the proposed future actions to provide adequate ongoing information disclosure and public consultation with the local population, in compliance with IDB's OP-102.

- An evaluation, and further development as necessary, of project monitoring/supervision procedures to ensure proper implementation of environmental, social, and health and safety actions and requirements.
- An evaluation of environmental, social and health and safety terms and conditions in relevant project legal documents, as they become available (e.g., license contract, construction contract etc.), in terms of sufficiency, potential risks or liabilities, or issues.
- An evaluation of potential existing and future environmental, social, or health and safety financial/credit risks and liabilities associated with the project, the project site, and the proposed mitigations.
- An evaluation of the Borrower's Corporate Social Responsibility policy and any programs intended to maximize the positive outcomes of the Project.

Considering the nature of this Project it is expected that environmental and social and health and safety impacts will not be significant and will be mitigable with standard environmental, social and health and safety good practices during construction, operation and maintenance.

After the Project is approved by the Board of Directors, the Bank will develop the specific contractual loan documents (based on PRI standard loan agreement), which will incorporate all the project-specific environmental, social, and health and safety requirements, including, but not limited to, (a) required compliance with the environmental and social management plans (including the communication plan), contingency and spill prevention and countercontrol plan (for substations), and health and safety plan, for both construction and operation, and (b) required implementation of environmental, social, and health and safety management systems compliant with ISO14001 for environment and BS8000 and OSHA for health and safety.