

No. 8253

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
BRAZIL**

**Guarantee Agreement—Xavantes Hydroelectric Project
(with annexed Loan Regulations No. 4, Loan Agreement
between the Bank and the Usinas Elétricas do Parana-
panema, S. A., and Project Funds Agreement between
the Bank and the State of São Paulo). Signed at Wash-
ington, on 26 February 1965**

Official text : English.

*Registered by the International Bank for Reconstruction and Development on 13 July
1966.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
BRÉSIL**

**Contrat de garantie — *Projet hydro-électrique du Xavantes*
(avec, en annexe, le Règlement n° 4 sur les emprunts, le
Contrat d'emprunt entre la Banque et les Usinas Elétricas
do Paranapanema, S. A., et le Contrat relatif à la four-
niture de fonds pour l'exécution du Projet conclu entre
la Banque et l'État de São Paulo). Signé à Washington,
le 26 février 1965**

Texte officiel anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement le
13 juillet 1966.*

No. 8253. GUARANTEE AGREEMENT¹ (*XAVANTES HYDROELECTRIC PROJECT*) BETWEEN THE UNITED STATES OF BRAZIL AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 26 FEBRUARY 1965

AGREEMENT, dated February 26, 1965, between THE UNITED STATES OF BRAZIL (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Usinas Elétricas do Paranapanema S.A. (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to twenty-two million five hundred thousand dollars (\$22,500,000), 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 hereinafter provided ;

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 ; and

WHEREAS the Guarantor represents and warrants that the giving of such guarantee is authorized by Law No. 1518 of December 24, 1951, Articles 22 and 23 of Law No. 1628 of June 20, 1952, and Law No. 4457 of November 6, 1964 ;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,³ subject, however, to the modifications thereof set forth in Section 1.01 of the Loan Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

¹ Came into force on 7 April 1966, upon notification by the Bank to the Government of Brazil.

² See p. 102 of this volume.

³ See p. 100 of this volume.

Section 1.02. Wherever used in this Agreement, the terms defined in Section 1.02 of the Loan Agreement shall have the same meanings as therein set forth.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan in the allocation or realization of foreign exchange. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including the Banco do Brasil, S.A. and the Superintendencia da Moeda e do Credito and any other institution performing the functions of a central bank for the Guarantor.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the

Guarantor. On the part of the Bank, such information shall include such information as shall be available to the Bank regarding the performance of the obligations of the Borrower under the Loan Agreement.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the services thereof. The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from any taxes imposed under the laws of the Guarantor or laws in effect in its territories ; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

Section 3.06. The Guarantor covenants that it will not take or permit any of its political subdivisions or any of its agencies (including Banco do Brasil, S.A., Superintendencia da Moeda e do Credito and any other institution performing the functions of a central bank for the Guarantor in respect of the allocation or realization of foreign exchange) or any agency of any political subdivision to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations of the Borrower in the Loan Agreement contained, and will take or cause to be taken all reasonable action (including action by Banco do Brasil, S.A., Superintendencia da Moeda e do Credito and any other institution performing the functions of a central bank for the Guarantor in respect of the allocation or realization of foreign exchange) which shall be necessary in order to enable the Borrower to perform such covenants, agreements and obligations.

Section 3.07. The Guarantor covenants that, except as the Guarantor and the Bank shall otherwise agree, it will : (a) set and maintain or cause to be set and main-

tained rates for the sale of electricity at such levels as may be necessary to provide the Borrower with revenues sufficient to : (i) cover all operating expenses of the Borrower, including adequate maintenance and straight-line depreciation of at least two and one-half per cent of its gross revalued fixed plant in operation ; and (ii) produce a return of not less than ten per cent on its total average net revalued fixed plant in operation ; and (b) cause the agency or agencies of the Guarantor responsible for the setting and adjustment of such rates to effect, when necessary, a review of such rates in order to verify that such rates are adequate to provide the Borrower with such revenues.

For the purposes of this Section, “revalued fixed plant in operation” will be determined in accordance with sound accounting practices uniformly applied, and after the necessary monetary corrections have been made to reflect a realistic value of the Borrower’s assets.

Section 3.08. The Guarantor undertakes that it shall : (a) take all such action as shall be practicable in the circumstances to encourage effective coordination of the operation of the electricity-generating, transmission and distribution facilities of the integrated system into which the power output of the Project will flow with a view to providing a suitable basis for such coordination by 1970 ; and (b) take or cause to be taken all such timely and effective action as shall be necessary or advisable in respect of the expansion of the transmission and distribution facilities in the areas served by such system in order to ensure that the electricity generated and to be generated by the system will efficiently reach the retailers and consumers in such areas.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance of the Guarantor and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor :

Ministério da Fazenda
Av. Presidente Antonio Carlos 375
Rio de Janeiro, Brazil

Alternative address for cablegrams and radiograms :

Minifaz
Rio de Janeiro

For the Bank :

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

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

Section 5.02. The Minister of Finance of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

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

The United States of Brazil :

By Joao DE OLIVEIRA CASTRO VIANNA
Authorized Representative

International Bank for Reconstruction and Development :

By G. M. WILSON
Vice President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 4, DATED 15 FEBRUARY 1961

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS OTHER THAN
MEMBER GOVERNMENTS

[*Not published herein. See United Nations, Treaty Series, Vol. 400, p. 212.*]

LOAN AGREEMENT
(XAVANTES HYDROELECTRIC PROJECT)

AGREEMENT, dated February 26, 1965, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and USINAS ELÉTRICAS DO PARANAPANEMA S.A. (hereinafter called the Borrower).

Article I

LOAN REGULATIONS ; SPECIAL DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,¹ with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations) :

(a) The second sentence of Section 4.01 of the Loan Regulations shall apply only to withdrawals from the Loan Account in respect of expenditures in currencies other than the currency of the Guarantor or other than for goods produced in (including services supplied from) the territories of the Guarantor.

(b) Paragraph (c) of Section 5.02 of the Loan Regulations is amended to read as follows :

“(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower, the Guarantor or the State under the Loan Agreement, the Guarantee Agreement,² the Project Funds Agreement or the Bonds, or under any other loan agreement, guarantee agreement or project funds agreement between any such party and the Bank or under any bond provided for in any such agreement.”

Section 1.02. Unless the context otherwise requires, the following terms wherever used in the Loan Agreement shall have the following meanings :

(a) The term “First Loan Agreement” means the Loan Agreement dated December 18, 1953,³ between the Bank and the Borrower.

(b) The term “Second Loan Agreement” means the Loan Agreement dated January 22, 1958,⁴ between the Bank and the Borrower.

(c) The term “First Guarantee Agreement” means the Guarantee Agreement dated December 18, 1953,³ between the Guarantor and the Bank.

(d) The term “Second Guarantee Agreement” means the Guarantee Agreement dated January 22, 1958,⁴ between the Guarantor and the Bank.

(e) The term “State” means the State of São Paulo of the Guarantor.

¹ See p. 100 of this volume.

² See p. 92 of this volume.

³ United Nations, *Treaty Series*, Vol. 190, p. 179.

⁴ United Nations, *Treaty Series*, Vol. 323, p. 99.

(f) The term "Project Funds Agreement"¹ means the agreement of even date herewith between the State and the Bank whereby the State agrees with the Bank to undertake certain obligations in respect of the funds to be provided to the Borrower.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to twenty-two million five hundred thousand dollars (\$22,500,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Agreement.

Section 2.03. Notwithstanding the provisions of Section 3.02 of the Loan Regulations, withdrawals from the Loan Account in respect of expenditures in the currency of the Guarantor or for goods produced in (including services supplied from) the territories of the Guarantor shall be in dollars or such other currency or currencies as the Bank shall from time to time reasonably select.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-eighths of one per cent ($\frac{3}{8}$ of 1 %) per annum on the principal amount of the Loan not so withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of five and one-half per cent ($5\frac{1}{2}$ %) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.06. Except as the Borrower and the Bank shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1 %) per annum on the principal amount of any such special commitment outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.08. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied exclusively to financing the cost of goods required to carry out the Project described in

¹ See p. 122 of this volume.

Schedule 2 to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Borrower and the Bank, subject to modification by further agreement between them.

Section 3.02. Except as the Bank shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Loan to be used in the territories of the Guarantor exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The *Director-Presidente* of the Borrower and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering, financial and public utility practices.

Section 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall, in the carrying out of the Project and in the planning of the expansion of its power system, employ competent and experienced consultants acceptable to, and upon terms and conditions satisfactory to, the Bank.

(b) Except as the Bank shall otherwise agree, the Borrower shall cause all works included in the Project to be constructed by contractors acceptable to the Bank and the Borrower.

Section 5.03. Upon request from time to time by the Bank, the Borrower shall promptly furnish or cause to be furnished to the Bank the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall reasonably request.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall at all times maintain its corporate existence and right to carry on its operations and shall take all steps necessary to acquire, maintain and renew all rights, powers, privileges, concessions and franchises which are necessary or useful in the conduct of its business.

(b) The Borrower shall operate and maintain its plants, equipment and property, and from time to time make all necessary renewals and repairs thereof, all in accordance with sound engineering and public utility practices.

Section 5.05. (a) The Borrower shall at all times manage its affairs, plan the future expansion of its power system and maintain its financial position all in accordance with sound business, financial and public utility principles and practices and under the supervision of experienced and competent management.

(b) The Borrower shall have its financial statements (balance sheet and related statement of earnings and expenses) certified annually by an independent accountant or accounting firm acceptable to the Bank and shall promptly after their preparation and not later than four months after the close of the Borrower's fiscal year transmit to the Bank certified copies of such statements and a signed copy of the accountant's or accounting firm's report.

Section 5.06. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance by the Borrower of its obligations under the Loan Agreement, the administration, operations and financial condition of the Borrower and other matters relating to the purposes of the Loan.

(b) The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the goods financed out of such proceeds, the Project, and the administration, operations and financial condition of the Borrower.

(c) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Borrower of its obligations under the Loan Agreement.

Section 5.07. The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; and shall enable the Bank's representatives to inspect the Project, the goods, all other plants, sites, works, properties and equipment of the Borrower and any relevant records and documents.

Section 5.08. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of the Loan Agreement, the Guarantee Agreement or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank

when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.09. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of the Loan Agreement, the Guarantee Agreement or the Bonds.

Section 5.10. (a) The Borrower shall insure or cause to be insured with good and reputable insurers all goods financed out of the proceeds of the Loan. Such insurance shall cover such marine, transit and other risks incident to purchase and importation of the goods into the territories of the Guarantor and delivery thereof to the site of the Project, and shall be for such amounts, as shall be consistent with sound business practices. Except as the Bank shall otherwise agree, any indemnity under such insurance shall be payable in the currency in which the cost of the goods insured thereunder shall be payable or in a freely convertible currency.

(b) In addition, the Borrower shall take out and maintain, with good and reputable insurers, insurance against such risks and in such amounts as shall be consistent with sound public utility and business practices.

Section 5.11. (a) Except as the Bank shall otherwise agree, the Borrower shall not, during the construction of the Project, undertake or permit to be undertaken on its behalf any major expansion project [other than the Project or the expansion of the transmission system described hereinafter in 5.11 (b)] or make any major addition to its plants and other property.

For the purposes of this Section a "major expansion project" or a "major addition" shall be deemed to be a project or an addition the aggregate cost of which shall be in excess of the equivalent of \$1 million.

(b) The Borrower undertakes further to expand its transmission system, in addition to the expansion of the transmission system described in paragraph (c) of the Project, in order to enable the Borrower efficiently and fully to transmit to the distributors the output of electricity generated and to be generated by the Borrower.

Section 5.12. Except as the Bank shall otherwise agree: (a) the Borrower shall obtain title to all goods financed out of the proceeds of the Loan free and clear of all encumbrances; and (b) the Borrower shall not, without the consent of the Bank, sell or otherwise dispose of any of its property or assets which shall be required for the efficient carrying on of its business and undertaking, including the Project, unless the Borrower shall first pay or redeem, or make adequate provision satisfactory to the Bank for payment or redemption of, all of the Loan and the Bonds which shall then be outstanding and unpaid, provided, however, that the Borrower may sell or otherwise dispose of any of its property which shall have become obsolete, worn-out or unnecessary for use in its plant.

Section 5.13. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt,

such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date; or (iv) any lien in favor of the Guarantor, on terms and conditions satisfactory to the Guarantor, the Bank and the Borrower, and by its terms expressly subordinated to the claims of the Bank hereunder, under the First Loan Agreement and under the Second Loan Agreement, which is created to secure obligations of the Borrower to the Guarantor arising out of the Guarantor's guarantee of the Loan and the loans provided for in the First Loan Agreement and the Second Loan Agreement.

Section 5.14. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall take all such actions as shall be necessary or advisable to: (a) cause its rates for the sale of electricity to be set and maintained at such levels as may be necessary to provide revenues sufficient to (i) cover all operating expenses of the Borrower including adequate maintenance and straight-line depreciation of at least two and one-half per cent of its gross revalued fixed plant in operation and (ii) produce a return of not less than ten percent on its total average net revalued fixed plant in operation; and (b) cause the agency or agencies of the Guarantor responsible for the setting and adjustment of such rates to effect, when necessary, a review of such rates in order to verify that such rates are adequate to provide the Borrower with such revenues.

For the purposes of this Section, "revalued fixed plant in operation" will be determined in accordance with sound accounting practices uniformly applied, and after the necessary monetary corrections have been made to reflect a realistic value of the Borrower's assets.

Section 5.15. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur any long-term debt if by incurring such debt the long-term debt of the Borrower shall exceed $66\frac{2}{3}\%$ of the net fixed assets of the Borrower.

For the purposes of this Section the following terms shall have the meanings hereinafter set forth:

1. The term "long-term debt" shall mean debt maturing by its terms more than one year after the date on which it is originally incurred.
2. The term "net fixed assets" shall mean (i) gross fixed assets in operation less accrued depreciation plus (ii) the cost of construction work-in-progress.
3. The determination of long-term debt and net fixed assets shall be made in accordance with sound accounting practices uniformly applied, after the necessary monetary

corrections have been made to reflect a realistic valuation of the Borrower's assets and liabilities.

4. Debt shall be deemed to be incurred on the day such debt becomes outstanding and repayable in accordance with the agreement providing therefor ; provided, however, that, in the case of guarantee of debt, debt shall be deemed to be incurred on the day the Borrower shall have entered into an agreement guaranteeing such debt.
5. Whenever for purposes of this Section it shall be necessary to value in Brazilian currency long-term debt payable in another currency, such valuation shall be made on the basis of the rate of exchange which the Bank shall determine to be reasonable in the circumstances.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b) or paragraph (e) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. For the purposes of the First Loan Agreement and of the Second Loan Agreement, paragraphs (c) of Sections 5.02 of the Loan Regulations of the Bank applicable, respectively, to each such agreement are hereby amended to read in each case as follows :

“(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower, the Guarantor or the State under the Loan Agreement, the Guarantee Agreement, the Project Funds Agreement or the Bonds, or under any other loan agreement, guarantee agreement or project funds agreement between any such party and the Bank or under any bond provided for in any such agreement.” ;

and the term “Loan Regulations” as used for the purposes of the First Loan Agreement or of the Second Loan Agreement shall mean Loan Regulations No. 4 of the Bank dated October 15, 1952, as modified by the Second Loan Agreement, or Loan Regulations No. 4 of the Bank dated June 15, 1956, as modified by the Second Loan Agreement, as the case may be, each as further amended hereby.

Section 6.03. Except as provided in the Loan Agreement, the First Loan Agreement and the Second Loan Agreement shall remain in full force and effect.

Article VII

EFFECTIVE DATE ; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (c) of the Loan Regulations :

(a) The Guarantee Agreement has been duly registered by Tribunal de Contas of the Guarantor ;

(b) Specific arrangements, satisfactory to the Bank, have been made with respect to such expansion of distribution facilities in the Rio de Janeiro and São Paulo areas as is required for the timely and effective distribution of the power to be generated by the Project ;

(c) The Borrower's rates for the sale of electricity have been set at such levels as are required in order to comply with Section 5.14 (a) of this Agreement ;

(d) Appropriate administrative or other measures, satisfactory to the Bank, have been taken by the Guarantor with respect to procurement of goods to be financed out of the proceeds of the Loan in order to ensure that the methods and procedures for procurement established pursuant to Section 3.01 of this Agreement can be followed ;

(e) The execution and delivery of the Project Funds Agreement has been duly authorized or ratified by all necessary governmental action ; and

(f) The Project Funds Agreement has been duly registered by the Tribunal de Contas of the State.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 9.02 (c) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank : that the Project Funds Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the State and constitutes a valid and binding obligation of the State in accordance with its terms.

Section 7.03. A date ninety days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be December 31, 1969, or such other date as shall be agreed by the Bank and the Borrower as the Closing Date.

Section 8.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Usinas Elétricas do Paranapanema S.A.
Avenida Casper Libero 390-8º andar
São Paulo, Brazil

Alternative address for cablegrams and radiograms :

Eletropanema
São Paulo

For the Bank :

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

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

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

International Bank for Reconstruction and Development :

By G. M. WILSON
Vice President

Usinas Elétricas do Paranapanema S.A. :

By Otto Cyrillo LEHMANN
Authorized Representative

SCHEDULE 1

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
May 1, 1970	\$305,000	May 1, 1980	\$520,000
November 1, 1970	310,000	November 1, 1980	535,000
May 1, 1971	320,000	May 1, 1981	550,000
November 1, 1971	330,000	November 1, 1981	565,000
May 1, 1972	340,000	May 1, 1982	580,000
November 1, 1972	345,000	November 1, 1982	595,000
May 1, 1973	355,000	May 1, 1983	615,000
November 1, 1973	365,000	November 1, 1983	630,000
May 1, 1974	375,000	May 1, 1984	650,000
November 1, 1974	385,000	November 1, 1984	665,000
May 1, 1975	400,000	May 1, 1985	685,000
November 1, 1975	410,000	November 1, 1985	705,000
May 1, 1976	420,000	May 1, 1986	720,000
November 1, 1976	430,000	November 1, 1986	740,000
May 1, 1977	445,000	May 1, 1987	760,000
November 1, 1977	455,000	November 1, 1987	785,000
May 1, 1978	470,000	May 1, 1988	805,000
November 1, 1978	480,000	November 1, 1988	825,000
May 1, 1979	495,000	May 1, 1989	850,000
November 1, 1979	510,000	November 1, 1989	875,000
		May 1, 1990	900,000

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	½ of 1%
More than three years but not more than six years before maturity	1%
More than six years but not more than eleven years before maturity	1½%
More than eleven years but not more than sixteen years before maturity	2½%
More than sixteen years but not more than twenty-one years before maturity	3½%
More than twenty-one years but not more than twenty-three years before maturity	4½%
More than twenty-three years before maturity	5½%

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project consists of : (1) the Xavantes dam and ancillary works on the Paranapanema River ; (2) the Xavantes power station ; (3) transmission facilities ; and (4) utilization of consulting services in the Borrower's operations and training of technical personnel.

The main items included in the Project are :

(a) An earth fill dam, with substantial rock ballast on the downstream side, about 400 meters long and about 90 meters high which will create a reservoir with a usable volume of water of about 3 billion cubic meters. The dam will contain about 5 million cubic meters of materials. There will be two intake towers, each connecting to tunnels of about 9 1/2 meters diameter drilled through rock. The intake towers will be equipped with gates, trash-racks and stop-logs. The tunnels will have reinforced concrete linings in the vertical section and steel linings in the horizontal section. The horizontal length of the tunnels will be about 370 meters and the vertical sections about 70 meters. The spillway will have a length of about 650 meters comprising the canal, chute and spilling basin sections.

(b) A powerhouse of the semi-enclosed type with four hydroelectric units of about 100 MW each equipped with Francis-type turbines, to be operated under a normal head of about 74 meters, complete with associated auxiliaries and ancillary installations.

(c) Transmission facilities consisting of a 220 kv transmission circuit about 180 kilometers long between the existing Jurumirim hydroelectric station, where it will connect to the existing system, Xavantes, the existing Salto Grande station and Assis.

(d) Training of technical personnel of the Borrower in conjunction with the operation of the Project and assistance of technical consultants in the planning of the future expansion of the Borrower's system.

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* *

It is expected that the Project will be completed and the Xavantes plant placed in operation by mid-1969.

PROJECT FUNDS AGREEMENT

(XAVANTES HYDROELECTRIC PROJECT)

AGREEMENT, dated February 26, 1965, between THE STATE OF SÃO PAULO (hereinafter called the State) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Usinas Elétricas do Paranapanema S.A. (hereinafter called the Borrower) which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,¹ the Bank

¹ See p. 102 of this volume.

has agreed to make to the Borrower a loan in various currencies equivalent to twenty-two million five hundred thousand dollars (\$22,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the State agree to provide the Borrower with funds on the terms and conditions set forth in this Project Funds Agreement ;

WHEREAS the State agrees that the Project described in Schedule 2 to the Loan Agreement (hereinafter called the Project) is of paramount importance to the power development plans of the State and that, consequently, the Project has the highest priority in the allocation of funds of the State, as permitted by the laws of the State ;

WHEREAS the State warrants and represents that it is authorized to enter into this Project Funds Agreement under Resolution No. 1629 of February 3, 1965 of the Governor of the State ; and

WHEREAS the State, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to provide the Borrower with funds on the terms and conditions hereinafter set forth,

NOW THEREFORE the parties hereto hereby agree as follows :

Section 1. The State shall pay to the Borrower as a payment on account of subscription of capital such amount of Brazilian cruzeiros as shall be required by the Borrower to enable it to carry out the Project with due diligence and efficiency.

Section 2. The State shall take all steps necessary to cause the amount payable to the Borrower pursuant to Section 1 of this Project Funds Agreement to be appropriated in the budgets of the Department of Waters and Electric Power of the State beginning with the year 1965, in yearly quotas, as required by the Borrower to enable it to carry out the Project with due diligence and efficiency, and shall cause such quotas to be paid to the Borrower in such monthly amounts as shall be required for that purpose.

Section 3. In the event that at any time the funds available to the Borrower shall not be adequate to enable the Borrower to meet the estimated expenditures required for carrying out the Project described in Schedule 2 of the Loan Agreement with due diligence and efficiency, the State shall promptly provide the Borrower with such additional funds as shall be required so to carry out such Project.

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

The State of São Paulo :
By Carlos CINELLI
Authorized Representative

International Bank for Reconstruction and Development :
By G. M. WILSON
Vice President