

No. 8665

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

Guarantee Agreement—*Power Distribution Program-A* (with annexed Loan Regulations No. 4, Loan Agreement between the Bank and the Companhia Brasileira de Energia Eletrica and Eletrobrás Shareholder Agreement between the Bank and Centrais Elétricas Brasileiras, S.A.). Signed at Washington, on 19 December 1966

Official text: English.

Registered by the International Bank for Reconstruction and Development on 26 June 1967.

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

Contrat de garantie — *Programme (A) de distribution d'énergie électrique* (avec, en annexe, le Règlement n° 4 sur les emprunts, le Contrat d'emprunt entre la Banque et la Companhia Brasileira de Energia Eletrica et le Contrat relatif à la participation de l'Eletrobrás conclu entre la Banque et les Centrais Elétricas Brasileiras, S.A.). Signé à Washington, le 19 décembre 1966

Texte officiel anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 26 juin 1967.

No. 8665. GUARANTEE AGREEMENT¹ (*POWER DISTRIBUTION PROGRAM-A*) BETWEEN THE UNITED STATES OF BRAZIL AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 19 DECEMBER 1966

AGREEMENT, dated December 19, 1966, 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 Companhia Brasileira de Energia Eletrica (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 six million two hundred thousand dollars (\$6,200,000), on the terms and conditions set forth in the Loan Agreement, but on condition that the Guarantor agree to guarantee the obligations of the Borrower and Eletrobrás as hereinafter provided; 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;

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 1628 of June 20, 1952; Law No. 4457 of November 6, 1964; and Law No. 5000 of May 24, 1966.

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, 1961,² subject, however, to the modifications thereof set forth in Section 1.01 of the 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 1 June 1967, upon notification by the Bank to the Government of Brazil.

² See p. 116 of this volume.

Section 1.02. Wherever used in this Guarantee Agreement, unless the context shall otherwise require, 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 Guarantee 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 and 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 Eletrobrás in the Eletrobrás Shareholder Agreement¹ set forth.

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 Banco Central da República do Brasil 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

¹ See p. 138 of this volume.

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.

(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 service 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 Guarantee Agreement, the Loan Agreement, the Eletrobrás Shareholder 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. (a) The Guarantor covenants that it will not take or permit any of its political subdivisions or any of its agencies (including Banco Central da República do Brasil 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 or Eletrobrás of any of the covenants, agreements and obligations of the Borrower and Eletrobrás in the Loan Agreement and the Eletrobrás Shareholder Agreement contained, and will take or cause to be taken all reasonable action (including action by Banco Central da República do Brasil 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 and Eletrobrás to perform such covenants, agreements and obligations.

(b) The Guarantor shall cause the agency or agencies of the Guarantor responsible for the setting and adjustment of the Borrower's rates for the sale of electricity to act in respect of any application of the Borrower for the setting and adjustment of such rates within a period of not more than 30 days after receipt of such application.

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 *Ministro da Fazenda* of the Guarantor and such person or persons as he shall appoint 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, Guanabara, Brazil

Alternative adress 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 *Ministro da Fazenda* 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 Antonio Francisco PEREIRA
Authorized Representative

International Bank for Reconstruction and Development :
By J. Burke KNAPP
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

(POWER DISTRIBUTION PROGRAM-A)

AGREEMENT, dated December 19, 1966, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and COMPANHIA BRASILEIRA DE ENERGIA ELETRICA (hereinafter called the Borrower).

WHEREAS Eletrobrás and the Guarantor have requested the Bank to assist certain of the subsidiaries of Eletrobrás in financing part of the power transmission and distribution program of Eletrobrás to be carried out by them; and

WHEREAS the Bank is willing at this time to contribute to such financing by making loans (hereinafter sometimes called the Distribution Loans) to four of such subsidiaries on the terms and conditions contained in loan agreements with such subsidiaries (hereinafter sometimes called the Distribution Loan Agreements), such Distribution Loans to be in an aggregate total amount in various currencies equivalent to sixty-one million six hundred thousand dollars (\$61,600,000); and

WHEREAS the Bank is willing at this time to make to the Borrower, as part of the Distribution Loans, a loan in an amount equivalent to six million two hundred thousand dollars (\$6,200,000);

NOW THEREFORE the parties hereto hereby agree as follows :

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 shall read as follows : “ Except as shall be otherwise agreed between the Bank and the Borrower, no withdrawals shall be made on account of (a) expenditures prior to the date of the Loan Agreement, or (b) expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in (including services supplied from) such territories. ”

(b) Section 9.04 shall be deleted.

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

1. The term “ Distribution Program ” means the transmission and distribution program for the years 1967 through 1969, to be carried out by the Project Companies including each of the Projects for which the Distribution Loans are granted by the Bank, the details of which are to be agreed from time to time between the Bank and the Project Companies.

2. The term “ Eletrobrás ” means Centrais Elétricas Brasileiras S.A.—Eletrobrás, an agency of the Guarantor, or any successor or successors thereto.

3. The term “ Eletrobrás Shareholder Agreement ” means the agreement of even date herewith² between the Bank and Eletrobrás whereby Eletrobrás agrees with the Bank to undertake certain obligations (including the provision of funds to the Project Companies) in respect of the Distribution Program, the Project Companies and the Other Companies.

4. The term “ Project Companies ” means, collectively, the Borrower, and Companhia Força e Luz do Parana, Companhia Paulista de Força e Luz and Companhia Força e Luz de Minas Gerais, all of such companies being subsidiaries of Eletrobrás, and includes subsidiaries of the Project Companies.

5. The term “ CAEEB ” means Companhia Auxiliar de Empresas Elétricas Brasileiras, a wholly owned management subsidiary of the Project Companies and certain other subsidiaries of Eletrobrás, and includes any subsidiaries of CAEEB, or any successor or successors thereto.

¹ See p. 116 of this volume.

² See p. 138 of this volume.

6. The term "Other Companies" means Companhia Força e Luz Nordeste do Brasil, Companhia Energia Eletrica de Bahia, Companhia Central Brasileira de Força Eletrica, and The Rio Grandense Light and Power Syndicate, Limited (together with its successor Companhia Pelotense de Eletricidade), all such companies being subsidiaries of Eletrobrás, and includes any subsidiaries of such companies, or any successor or successors thereto.

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 six million two hundred thousand dollars (\$6,200,000).

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 any other provision of the Loan Agreement, unless the Bank shall otherwise agree, the Borrower shall not be entitled to make withdrawals from the Loan Account in respect of expenditures for goods to be purchased for the Project during the years 1968 or 1969 until detailed studies of the distribution system expansion and detailed cost estimates therefor, in form and substance satisfactory to the Bank, have been prepared by the Borrower in respect of the Project for the year in question.

Section 2.04. 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 2.05. 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 2.06. The Borrower shall pay interest at the rate of six per cent (6%) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.07. 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 2.08. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.09. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Agreement.

Section 2.10. Notwithstanding the provisions of Sections 3.03 and 3.04 of the Loan Regulations the Bank and the Borrower may, for purposes of sale by the Bank, from time to time agree that any portion of the Loan payable in one currency may be made payable in one or more other currencies and from the date specified in such agreement such portion of the Loan and the principal of any Bond representing such portion of the Loan and any premiums and interest payable on or with respect thereto shall be payable in such other currency or currencies.

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 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. Two *diretores* of the Borrower and such person or persons as they shall jointly 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. Except as the Bank shall otherwise agree, the Borrower shall, in the carrying out of such parts of the Project as the Bank and the Borrower shall agree upon, employ consultants acceptable to, and upon terms and conditions satisfactory to, the Bank.

Section 5.03. Upon request from time to time by the Bank, the Borrower shall promptly furnish 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) The Borrower shall at all times maintain its corporate existence and right to carry on its operations, and 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.

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

Section 5.05. 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 calendar 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 of them, 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 or cause to be furnished 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 the obligations in the Loan Agreement contained.

Section 5.07. The Borrower shall : (i) maintain or cause to be maintained 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 (ii) enable the Bank's represent-

atives 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 undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any of the assets of the Borrower as security for any debt, such lien shall *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and in the creation of any such lien express provision shall 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, or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

Section 5.09. 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,¹ the Eletrobrás Shareholder Agreement,² 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 5.10. 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, the Eletrobrás Shareholder Agreement or the Bonds.

Section 5.11. (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 sites of the Project, and shall be for such amounts, as shall be consistent with sound commercial 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, except as the Bank shall otherwise agree, 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.

¹ See p. 108 of this volume.

² See p. 138 of this volume.

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 sell or otherwise dispose of, or permit the sale or disposal of, any of the property or assets which shall be required for the efficient carrying on of the business and undertaking of the Borrower, 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, or permit the sale or disposal of, any property which shall have become obsolete, worn-out or unnecessary for use in its plant.

Section 5.13. The Borrower shall, during the years 1967 through 1970 from time to time as required for the financing of the Project and its continuing power distribution expansion, increase the capital stock of the Borrower by amounts in Brazilian currency, satisfactory to the Bank, enabling the Borrower to receive an amount equal in the aggregate to the equivalent of at least six million two hundred thousand dollars (\$6,200,000). When for purposes of this Section it shall be necessary from time to time to value, in terms of dollars, payments in Brazilian currency for such stock such valuation shall be made at the time of such payments on the basis of the prevailing lawful rate of exchange at the time of such valuation.

Section 5.14. If, during the years 1967 through 1970, funds available or estimated to be available to the Borrower during any fiscal year of the Borrower shall not be adequate to meet the estimated expenditures of its planned power distribution expansion for that fiscal year, the Borrower shall, before calling on Eletrobrás to provide additional funds as required by Section 2.04 (b) of the Eletrobrás Shareholder Agreement, restrict, or, if necessary, refrain from declaring, cash dividends to its shareholders or from making payments in respect thereof.

Section 5.15. Except as the Bank and the Borrower shall otherwise agree :

(a) the Borrower shall take all such action (including, in such cases where automatic rate adjustments are not permitted, action with respect to the filing, within a period of not more than five months after the end of every calendar year, of appropriate applications in respect of rates) as shall be necessary or advisable to : (i) cause the Borrower's rates for the sale of electricity to be set and maintained at such levels as will produce revenues, as provided by the legislation of the Guarantor in effect on the date of this Agreement, sufficient to ensure the continued operation of the Borrower's business in accordance with sound financial and public utility practices, using straightline depreciation which shall be not less than that based on the useful lives of depreciable assets in operation; and (ii) enable the agency or agencies of the Guarantor responsible for the setting and adjustment of such rates to act promptly in respect thereof; and

(b) the Borrower shall, as permitted by the legislation of the Guarantor in effect on the date of this Agreement, revalue its assets at least once every calendar year, such revalua-

tion to reflect a realistic valuation of such assets, and apply for the corresponding rate adjustments.

Section 5.16. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur any debt if by incurring such debt the debt of the Borrower shall exceed $66\frac{2}{3}\%$ of its total fixed assets.

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

1. The term " debt " means all debt except debt maturing by its terms on demand or less than one year after it is incurred in the ordinary course of business.

2. Debt shall be deemed to be incurred on the day such debt becomes outstanding and repayable in accordance with the agreement providing for the incurrence of such debt; provided, however, that, in the case of guarantee of debt, debt shall be deemed to be incurred on the day the agreement guaranteeing such debt has been entered into.

3. The term " total fixed assets " means gross fixed assets in operation less the depreciation reserve, plus the cost of construction work-in-progress, all such items to be revalued on the basis of the latest applicable official revaluation coefficients.

4. Whenever for purposes of this Section it shall be necessary to value, in terms of Brazilian currency, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at the time of such valuation.

Section 5.17. Except as the Bank shall otherwise agree, the Borrower shall not purchase or otherwise acquire or hold a substantial number of shares of capital stock of any of the Project Companies. For the purposes of this Section " a substantial number of shares of capital stock " means more than one hundred such shares.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) 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 or in Section 6.02 (a) and (b) of this Agreement 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 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 the Loan Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. The following events are specified for the purposes of paragraph (j) of Section 5.02 of the Loan Regulations :

(a) A default shall have occurred in the performance of any covenant or agreement on the part of Eletrobrás under the Eletrobrás Shareholder Agreement.

(b) A change in the legislation of the Guarantor shall have occurred, which, in the judgment of the Bank, shall materially and adversely affect the carrying on of the Borrower's business or the setting or adjustment of the Borrower's rates for the sale of electricity at such levels as shall be necessary to provide the Borrower with revenues sufficient to ensure the continued operation of the Borrower's business in accordance with sound financial and public utility practices.

For the purposes of this paragraph the term "change in the legislation of the Guarantor" shall mean any change (including, but without limitation, any amendment or repeal of, or failure to carry out or enforce, any such legislation) in the entire body of legislation of the Guarantor (including, but without limitation, all constitutional provisions, statutes, laws, decree-laws, executive decrees and regulations, and any other legal provisions of a similar nature) directly or indirectly relating to the carrying on of the Borrower's business and the determination and adjustment of the Borrower's rates for the sale of electricity.

(c) Failure by the Borrower or the Guarantor to fulfill an obligation to make payment of principal or interest or any other payment required under the Loan Agreement, the Guarantee Agreement or the Bonds or under any other loan agreement between the Bank and the Borrower or under any loan agreement or guarantee agreement between the Guarantor and the Bank or any bond delivered pursuant to any such agreement even though such payment has been made by other persons.

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 the Tribunal de Contas of the Guarantor;

(b) The execution and delivery of the Eletrobrás Shareholder Agreement has been duly authorized or ratified by all necessary legal action;

(c) Unless the Bank shall otherwise agree, the other Distribution Loan Agreements have become effective;

(d) Action satisfactory to the Bank has, if necessary, been taken with respect to the terms and conditions of the debt of the Borrower referred to in Section 2.05 of the Eletrobrás Shareholder Agreement which will satisfy the requirements of such Section.

(e) Except as the Bank shall otherwise agree, all necessary acts, consents and approvals to be performed or given by the Guarantor, its political subdivisions or agencies or by any agency of any political subdivision or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower and Eletrobrás to perform all of the covenants, agreements and obligations of the Borrower and Eletrobrás in the Loan Agreement and the Eletrobrás Shareholder Agreement contained,

together with all necessary powers and rights in connection therewith, have been performed or given.

(f) The Borrower has certified in writing to the Bank that, as of a date to be agreed between the Bank and the Borrower (which shall be prior to the Effective Date), there has been no material adverse change in its condition since the date of this Agreement.

Section 7.02. The following are specified as additional matters, 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 :

(a) That the Eletrobrás Shareholder Agreement has been executed and delivered on behalf of Eletrobrás and constitutes a valid and binding obligation of Eletrobrás in accordance with its terms.

(b) That all acts, consents and approvals referred to in Section 7.01 (e) together with all necessary powers and rights in connection therewith, have been duly and validly performed or given and that no other such acts, consents or approvals are required in order to authorize the carrying out of the Project and to enable the Borrower and Eletrobrás to perform all of the covenants, agreements and obligations of the Borrower and Eletrobrás in the Loan Agreement and the Eletrobrás Shareholder Agreement contained.

Section 7.03. If the Loan Agreement, the Guarantee Agreement and the Eletrobrás Shareholder Agreement shall not have come into force and effect by May 15, 1967, the Loan Agreement, the Guarantee Agreement and the Eletrobrás Shareholder Agreement and all obligations of the parties under such Agreements shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purposes of this Section. The Bank shall promptly notify the Borrower, the Guarantor and Eletrobrás of such date.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be December 31, 1970, or such other date or dates 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 :

Companhia Brasileira de Energia Eletrica
Av. Rio Branco 135 (14º andar)
Rio de Janeiro, Guanabara, Brazil

Alternative address for cablegrams and radiograms :

Empelbra
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.

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 J. Burke KNAPP
Vice President

Companhia Brasileira de Energia Eletrica :

By Leo A. PENNA
Authorized Representative

By Oswaldo A. GUIMARÃES
Authorized Representative

SCHEDULE I

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>
February 15, 1972	125,000	February 15, 1980	200,000
August 15, 1972	130,000	August 15, 1980	205,000
February 15, 1973	130,000	February 15, 1981	210,000
August 15, 1973	135,000	August 15, 1981	215,000
February 15, 1974	140,000	February 15, 1982	225,000
August 15, 1974	145,000	August 15, 1982	230,000
February 15, 1975	150,000	February 15, 1983	240,000
August 15, 1975	150,000	August 15, 1983	245,000
February 15, 1976	155,000	February 15, 1984	250,000
August 15, 1976	160,000	August 15, 1984	260,000
February 15, 1977	165,000	February 15, 1985	265,000
August 15, 1977	170,000	August 15, 1985	275,000
February 15, 1978	175,000	February 15, 1986	285,000
August 15, 1978	180,000	August 15, 1986	290,000
February 15, 1979	190,000	February 15, 1987	310,000
August 15, 1979	195,000		

* 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 ½%
More than six years but not more than eleven years before maturity	2 ½%
More than eleven years but not more than sixteen years before maturity	3 ½%
More than sixteen years but not more than eighteen years before maturity	5%
More than eighteen years before maturity	6%

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project consists of the rehabilitation and expansion of the distribution system of the Borrower in the State of Rio de Janeiro for the years 1967, 1968 and 1969. The Project includes :

- (a) Construction of necessary 66 kv transmission lines and installation of associated high voltage substation capacity.
- (b) Rehabilitation of existing 11.6 kv primary distribution feeders, conversion of existing 2.3 kv feeders to 11.6 kv operation, and installation of new 11.6 kv feeders.
- (c) Rehabilitation and expansion of the 127/220 volts secondary distribution network to supply about 20,000 additional customers.

ELETROBRAS SHAREHOLDER AGREEMENT
(POWER DISTRIBUTION PROGRAM)

AGREEMENT, dated December 19, 1966, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and CENTRAIS ELETRICAS BRASILEIRAS S.A.—ELETROBRAS (hereinafter called Eletrobrás).

WHEREAS by agreements of even date herewith between the Bank and Companhia Brasileira de Energia Eletrica,¹ Companhia Força e Luz do Parana,² Companhia Paulista de Força e Luz³ and Companhia Força e Luz de Minas Gerais⁴ (hereinafter called the Project Companies) which agreements and the schedules therein referred to are hereinafter called the Distribution Loan Agreements, the Bank has agreed to make to the Project Companies loans (hereinafter called the Distribution Loans) in various currencies

¹ See p. 116 of this volume.

² See p. 149 of this volume.

³ See p. 177 of this volume.

⁴ See p. 205 of this volume.

equivalent to six million two hundred thousand dollars (\$6,200,000), eight million one hundred thousand dollars (\$8,100,000), forty-one million dollars (\$41,000,000) and six million three hundred thousand dollars (\$6,300,000) respectively, on the terms and conditions set forth in the Distribution Loan Agreements, but on condition that Eletrobrás agree to undertake certain obligations to the Bank as hereinafter in this Agreement set forth :

WHEREAS Eletrobrás controls the corporate activities of the Project Companies, the Other Companies and CAEEB by reason of its ownership or effective control of the majority of the voting shares of stock of all such companies which enables Eletrobrás directly or indirectly to determine their policies and appoint their management;

WHEREAS Eletrobrás agrees that the Distribution Program is of paramount importance to the power development plans of Brazil and that, as a consequence thereof and in the exercise of the functions assigned to it by Brazilian law, it has requested the Bank to make the Distribution Loans to the Project Companies for the purpose of assisting the Project Companies in carrying out the Distribution Program;

WHEREAS Eletrobrás warrants and represents that it is authorized to undertake the obligations in this Agreement contained under Law No. 3890-A of April 25, 1961 and Law No. 4400 of August 31, 1964, of the Guarantor;

WHEREAS Eletrobrás, in consideration of the Bank's entering into the Distribution Loan Agreements with the Project Companies, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE, the parties hereto hereby agree as follows :

Article I

DEFINITIONS

Section 1.01. Wherever used in this Agreement, unless the context otherwise requires, the terms defined in Sections 1.02 of the Distribution Loan Agreements shall have the same meanings as therein set forth.

Article II

PARTICULAR COVENANTS

Section 2.01. (a) Eletrobrás covenants that it will : (i) exercise every power, right and recourse available to it to cause the Project Companies to perform all their covenants, agreements and obligations under the Distribution Loan Agreements; and (ii) not take or permit to be taken any action which would prevent or interfere with the performance by the Project Companies of such covenants, agreements and obligations.

(b) Eletrobrás covenants that, in pursuance of its obligations under paragraph (a) of this Section, it shall take all such action as shall be necessary or advisable to cause each

of the Project Companies to comply with its obligations in Sections 5.15 of the Distribution Loan Agreements contained.

Section 2.02. Eletrobrás covenants that it will exercise every power, right and recourse available to it to cause: (a) the Other Companies and CAEEB at all times to carry on their operations, manage their affairs, maintain their financial position and plan the future expansion of their power systems, all in accordance with sound business, financial and public utility principles and practices and under the supervision of experienced and competent management; and (b) the financial statements (balance sheets and related statements of earnings and expenses) of the Other Companies and CAEEB to be 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 calendar year transmit or cause to be transmitted to the Bank certified copies of such statements and a signed copy of the accountant's or accounting firm's report.

Section 2.03. (a) Except as the Guarantor, the Bank and Eletrobrás shall otherwise agree, Eletrobrás shall not: (i) divest itself of ownership or otherwise lose effective control of the majority of the voting shares of stock of the Project Companies or the Other Companies; or (ii) permit the companies owning CAEEB from divesting themselves of their ownership or effective control of CAEEB.

(b) Except to the extent permitted by the Distribution Loan Agreements or this Agreement, Eletrobrás shall not enter into any transaction with the Project Companies save in the ordinary course of business, on ordinary commercial terms and on the basis of arms-length arrangements, or permit the Project Companies or CAEEB, without the consent of the Bank, substantially to modify or terminate the management arrangements now in effect between the Project Companies and CAEEB.

Section 2.04. Except as the Bank shall otherwise agree:

(a) Eletrobrás shall subscribe to the increases of capital stock of each of the Project Companies required by Sections 5.13 of the Distribution Loan Agreements and from time to time make payments on account thereof, as shall be necessary, together with payments on account of subscriptions made by shareholders other than Eletrobrás, to enable the Project Companies to carry out the Distribution Program and their continuing power distribution expansion with due diligence and efficiency.

(b) Eletrobrás shall, in addition, promptly as needed by the Project Companies to enable them to carry out the Distribution Program and their continuing power distribution expansion with due diligence and efficiency, provide all such other amounts of money other than by way of equity investment, as shall be required by the Project Companies for that purpose.

Section 2.05. Eletrobrás shall take all such action satisfactory to the Bank as shall be necessary to ensure that the outstanding debt of the Project Companies held by Eletrobrás on the date of this Agreement shall, by its terms, rank equally and ratably

to the claims of the Bank against the Project Companies under the Distribution Loan Agreements.

Section 2.06. (a) The Bank and Eletrobrás shall cooperate fully to assure that the purposes of the Distribution Loans will be accomplished. To that end, the Bank and Eletrobrás shall from time to time, at the request of either of them, exchange views through their representatives with regard to the performance by the Project Companies of their obligations under the Distribution Loan Agreements, the administration, operations and financial condition of Eletrobrás, the Project Companies, the Other Companies and CAEEB in respect of the Distribution Program, and other matters relating to the purposes of the Distribution Loans.

(b) Eletrobrás shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the Distribution Program, and the administration, operations and financial condition of Eletrobrás, the Project Companies, the Other Companies and CAEEB.

(c) Eletrobrás shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Distribution Loans, the maintenance of the service thereof or the performance by the Project Companies of their obligations in the Distribution Loan Agreements contained.

Article III

EFFECTIVE DATE; TERMINATION

Section 3.01. This Agreement shall come into force and effect in respect of each of the Distribution Loan Agreements on the Effective Date of each such Distribution Loan Agreement. If, pursuant to Section 7.03 of any such Distribution Loan Agreement, such Distribution Loan Agreement shall be terminated, this Agreement and all obligations of Eletrobrás with respect to such Distribution Loan Agreement shall also terminate and the Bank shall notify Eletrobrás thereof; provided, however, that, in case of termination of any such Distribution Loan Agreement, the Borrower thereunder shall thereafter be deemed to be, for the purposes of this Agreement, one of the Other Companies.

Section 3.02. (a) This Agreement and the obligations of the parties hereunder shall terminate when the Distribution Loan Agreements shall terminate in accordance with their terms.

(b) If and when any one of the Distribution Loan Agreements shall terminate in accordance with its terms, this Agreement and all obligations of the parties hereunder with respect to such Distribution Loan Agreement shall forthwith terminate; provided, however, that, in case of termination of any such Distribution Loan Agreement prior to February 15, 1987, the Borrower thereunder shall thereafter be deemed to be, for the purposes of this Agreement, one of the Other Companies.

Article IV

MISCELLANEOUS

Section 4.01. Any notice, demand or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice, demand or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

Section 4.02. The following addresses are specified for the purposes of Section 4.01 of this Agreement :

(a) 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 cables and radiograms :

Intbafrad
Washington, D.C.

(b) For Eletrobrás :

Centrais Elétricas Brasileiras S.A.—Eletrobrás
Avenida Pres. Vargas 642, 10º Andar
Rio de Janeiro, Guanabara, Brazil

Alternative address for cables and radiograms :

Eletrobrás
Rio de Janeiro

Section 4.03. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of Eletrobrás may be taken or executed by the *Presidente* and one *diretor* or such other person or persons as they shall jointly appoint in writing.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this 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 J. Burke KNAPP
Vice President

Centrais Elétricas Brasileiras S.A.—Eletrobrás :

By Octavio MARCONDES FERRAZ
Authorized Representative

By Ronaldo MOREIRA DA ROCHA
Authorized Representative