

No. 8664

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

**Guarantee Agreement—*Jaguara Power Project* (with annexed Loan Regulations No. 4, Loan Agreement between the Bank and the Centrais Elétricas de Minas Gerais, S.A. and Project Agreement between the Bank and the State of Minas Gerais). Signed at Washington, on 15 March 1966**

**Agreement amending the above-mentioned Guarantee Agreement (with annexed Agreement between the Bank and the Centrais Elétricas de Minas Gerais, S.A. amending the above-mentioned Loan Agreement). Signed at Washington, on 19 December 1966**

*Official text: English.*

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

No. 8664. GUARANTEE AGREEMENT<sup>1</sup> (*JAGUARA POWER PROJECT*) BETWEEN THE UNITED STATES OF BRAZIL AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 15 MARCH 1966

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AGREEMENT, dated March 15, 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 CENTRAIS ELETRICAS DE MINAS GERAIS, S.A. (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,<sup>2</sup> the Bank has agreed to make to the Borrower a loan in various currencies equivalent to forty-nine million dollars (\$49,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided and that The State of Minas Gerais of the Guarantor undertake certain obligations to the Bank (including the provision of funds to the Borrower) as set forth in a project agreement also of even date herewith;<sup>3</sup> 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; 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,<sup>4</sup> subject, however, to the modifications thereof set forth in Section 1.01 of the Loan

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<sup>1</sup> Came into force on 29 May 1967, upon notification by the Bank to the Government of Brazil.

<sup>2</sup> See p. 66 of this volume.

<sup>3</sup> See p. 92 of this volume.

<sup>4</sup> See p. 64 of this volume.

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.

*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.

## *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

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 Project 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 Eletrobrás, and 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 the State of any of the covenants, agreements and obligations of the Borrower and the State in the Loan Agreement and the Project Agreement contained, and will take or cause to be taken all reasonable action (including action by Eletrobrás, and 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 the State to perform such covenants, agreements and obligations.

*Section 3.07.* The Guarantor covenants that, except as the Bank and the Guarantor shall otherwise agree, it will :

(a) set and maintain or cause to be set and maintained rates for the sale of electricity at such levels as may be necessary to provide the CEMIG Group with revenues at least sufficient to : (i) cover all operating expenses of the CEMIG Group including all generating, transmission and distribution expenses, adequate maintenance and straightline depreciation based on the useful lives of the assets (but not less than 3% of its average gross revalued fixed assets in operation), administrative and general expenses and taxes (other than income tax and revaluation tax), but excluding charges for amortization or reversion of assets; and (ii) produce an annual rate of return of not less than 10% on its revalued net fixed assets in operation at the end of each calendar year;

(b) in case the CEMIG Group does not obtain such return in any particular calendar year, adjust or cause to be adjusted the rates of the CEMIG Group so that the CEMIG Group is compensated for the deficit during a twelve-month period running from the date on which the action referred to in paragraph (c) below is taken; and

(c) cause the agency or agencies of the Guarantor responsible for the setting and adjustment of such rates to act in respect thereof within a period of not more than 60 days after receipt of the Borrower's application therefor.

For the purposes of this Section :

1. The term " average gross revalued fixed assets in operation " means one-half the sum of the gross fixed assets in operation at the beginning of the calendar year and the gross fixed assets in operation at the end of the calendar year, both revalued on the basis of the latest official cost indices, such revaluation to be effected at least once a year in order to reflect a realistic value of the assets of the CEMIG Group.
2. The term " revalued net fixed assets in operation at the end of each calendar year " means gross fixed assets in operation less the depreciation reserve at the end of each calendar year, both revalued on the basis of the latest official cost indices, such revaluation to be effected at least once a year in order to reflect a realistic value of the assets of the CEMIG Group.
3. The term " annual rate of return " means the annual gross operating revenues less all operating expenses as stated in (a) (i) above, expressed as a percentage of the revalued net fixed assets in operation at the end of the calendar year.

*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.

*Section 3.09.* The Guarantor shall promptly : (a) carry out a study in respect of the possibility of amending its legislation and administrative practices in order to enable contractors working on power projects such as the Project freely to bring into and take out of the territories of the Guarantor construction equipment and to import permanent equipment for installation in such projects, all with a view to obtaining the services of such contractors for the lowest prices and under the most favorable conditions ; and (b) take such measures as shall be practicable in the circumstances to put the findings of such study into effect as soon as possible.

*Section 3.10.* The Guarantor shall : (a) promptly carry out a study of its legislation and administrative practices in respect of electricity rate policies with a view to (i) achieving the establishment and enforcement of such consistent rate policies as shall ensure to power utilities the production of an adequate return on their real investment, and (ii) preventing electricity taxes from hampering the attainment of the objectives of such policies ; and (b) take such measures as shall be necessary to put the findings of such study into effect as soon as possible.

#### *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  
Ave. Presidente 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 *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 João DE OLIVEIRA CASTRO VIANNA  
Authorized Representative

International Bank for Reconstruction and Development :

By George D. WOODS  
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  
(JAGUARA POWER PROJECT)

AGREEMENT, dated March 15, 1966, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, party of the first part (hereinafter called the Bank), and CENTRAIS ELETRICAS DE MINAS GERAIS, S.A., party of the second part (hereinafter called the Borrower).

*Article I*

LOAN REGULATIONS; SPECIAL DEFINITIONS

*Section 1.01.* The parties to the Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,<sup>1</sup> 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 3.02 of the Loan Regulations shall apply only to withdrawals pursuant to subsection (a) of Section 2.03 of the Loan Agreement.

(b) Section 4.01 of the Loan Regulations is deleted.

(c) Section 9.04 is deleted.

*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 "State" means The State of Minas Gerais of the Guarantor.

(b) The term "Project Agreement" means the agreement of even date herewith<sup>2</sup> between the State and the Bank whereby the State agrees with the Bank to undertake certain obligations (including the provision of funds to the Borrower) in respect of the Expansion Program.

(c) The term "Expansion Program" means the CEMIG Group's 1966-1971 program for expansion of the power generating, transmission and distribution facilities of the State (including the Project), as such program is described in Schedule 2 to the Loan Agreement and as it shall be amended from time to time by agreement between the Borrower and the Bank.

(d) The term "Eletrobrás" means Centrais Elétricas Brasileiras, an agency of the Guarantor, or any successor thereto.

(e) The term "Ermig" means Eletrificação Rural de Minas Gerais, a subsidiary of the Borrower charged with carrying out the rural electrification activities of the State, or any successor thereto.

(f) The term "CEMIG Group" means the Borrower and *Ermig* and any other entities owned or effectively controlled by either of them, and includes any subsidiaries of the Borrower and *Ermig* and any subsidiaries of such subsidiaries.

<sup>1</sup> See p. 64 of this volume.

<sup>2</sup> See p. 92 of this volume.



(g) The term "First Loan Agreement" means the Loan Agreement (*Itutinga Hydro-Electric Project*) dated July 17, 1953,<sup>1</sup> between the Bank and Companhia de Eletricidade do Alto Rio Grande and 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 forty-nine million dollars (\$49,000,000).

*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.* Except as the Bank shall otherwise agree, the Borrower shall be entitled, subject to the provisions of the Loan Agreement, to withdraw from the Loan Account :

(a) such amounts as shall have been expended for the reasonable cost of goods to be financed under the Loan Agreement and, if the Bank shall so agree, such amounts as shall be required by the Borrower to meet payments for such goods; and

(b) the equivalent of a percentage or percentages to be established from time to time by agreement between the Bank and the Borrower of such amounts as shall have been expended for the reasonable cost of goods required for carrying out the civil works included in part I of the Project and not included in (a) above; provided, however, that no withdrawals shall be made on account of : (i) expenditures prior to March 1, 1965; or (ii) expenditures made in the territories of any country (except Switzerland) which is not a member of the Bank or for goods produced in (including services supplied from) such territories.

*Section 2.04.* Withdrawals from the Loan Account pursuant to subsection (b) of Section 2.03 of this Agreement or 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 Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower

<sup>1</sup> United Nations, *Treaty Series*, Vol. 190, p. 149.

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 commitments outstanding from time to time.

*Section 2.08.* Interest and other charges shall be payable semi-annually on April 1 and October 1 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 Section 3.03 and 3.04 of the Loan Regulations, the Bank and the Borrower may 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 apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out part I of 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 Bank and the Borrower, subject to modification by further agreement between them.

*Section 3.02.* Except as the Bank and the Borrower 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 *Presidente* and one Director of the Borrower and such person or persons as they 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 or cause the Project to be carried out 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 such parts of the Project as the Bank and the Borrower shall agree upon, employ or cause to be employed 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 part I of the Project to be constructed by contractors acceptable to the Bank and the Borrower under contracts satisfactory 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.* The Borrower shall, and shall cause each of the other entities of the CEMIG Group to, 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, and shall cause each of the other entities of the CEMIG Group to, 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 the electric power system of the State, all in accordance with sound business, financial and public utility principles and practices and under the supervision of experienced and competent management.

(d) The Borrower shall at all times take all such action as shall be necessary to cause each of the other entities of the CEMIG Group to comply with the obligations arising out of the Loan Agreement to the extent applicable thereto.

*Section 5.05.* The Borrower shall have the financial statements (balance sheet and related statement of earnings and expenses) of the CEMIG Group 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 CEMIG Group, 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 pro-

ceeds of the Loan, the goods financed out of such proceeds, the Project, and the administration, operations and financial condition of the CEMIG Group.

(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 or any of the other entities of the CEMIG Group of the obligations in the Loan Agreement contained.

(d) 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 CEMIG Group; and (ii) enable the Bank's representatives to inspect the Project, the goods, all other plants, sites, works, properties and equipment of the CEMIG Group, and any relevant records and documents.

*Section 5.07.* The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any of the assets of the CEMIG Group 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 5.08.* 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,<sup>1</sup> the Project Agreement, 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, the Project 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

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<sup>1</sup> See p. 54 of this volume.

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 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, and cause the other entities of the CEMIG Group to 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.* 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 CEMIG Group, 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 the plant of the CEMIG Group.

*Section 5.12.* Except as the Bank shall otherwise agree, the Borrower shall not, until the Project shall have been completed, undertake, or permit the CEMIG Group to undertake, any major expansion project not included in the Expansion Program, or make, or permit the CEMIG Group to make, any major addition to its plants and other property, unless such major expansion project or addition is undertaken or made in accordance with a financing plan satisfactory to the Borrower and the Bank.

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 one million dollars.

*Section 5.13.* Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur, or permit any of the other entities of the CEMIG Group to incur, any debt if by incurring such debt the debt of the CEMIG Group shall exceed 66-2/3% of the net fixed assets of the CEMIG Group.

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

1. The term “debt” means debt other than debt incurred in the ordinary course of business and shall not include debt owed by any entity within the CEMIG Group to any other such entity.

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 "net fixed assets" means gross fixed assets in operation less accrued depreciation plus the cost of construction work-in-progress.

4. The determination of 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 assets and liabilities of the CEMIG Group.

5. Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.

*Section 5.14.* Except as the Bank and the Borrower shall otherwise agree, the Borrower shall, and shall cause each of the other entities of the CEMIG Group to, take all such action as shall be necessary or advisable to:

- (a) cause the rates of the CEMIG Group for the sale of electricity to be set and maintained at such levels as may be necessary to provide revenues at least sufficient to:
  - (i) cover all operating expenses of the CEMIG Group, including all generating, transmission and distribution expenses, adequate maintenance and straight-line depreciation based on the useful lives of the assets (but not less than 3% of its average gross revalued fixed assets in operation), administrative and general expenses and taxes (other than income tax and revaluation tax), but excluding charges for amortization or reversion of assets; and
  - (ii) produce an annual rate of return of not less than 10% on its revalued net fixed assets in operation at the end of each calendar year;
- (b) in case the CEMIG Group does not obtain such return in any particular calendar year, apply for rate adjustments within a period of not more than five months after the close of such year in order to be compensated for the deficit during a twelve-month period running from the date on which the action referred to in Section 3.07 (c) of the Guarantee Agreement is taken; and
- (c) cause the agency or agencies of the Guarantor responsible for the setting and adjustment of such rates to act promptly in respect thereof.

For the purposes of this Section:

1. The term "average gross revalued fixed assets in operation" means one-half the sum of the gross fixed assets in operation at the beginning of the calendar year and the gross fixed assets in operation at the end of the calendar year, both revalued on the basis of the latest official cost indices, such revaluation to be effected at least once a year in order to reflect a realistic value of the assets of the CEMIG Group.

2. The term "revalued net fixed assets in operation at the end of each calendar year" means gross fixed assets in operation less the depreciation reserve at the end of each calendar year, both revalued on the basis of the latest official cost indices, such revaluation to be effected at least once a year in order to reflect a realistic value of the assets of the CEMIG Group.

3. The term "annual rate of return" means the annual gross operating revenues less all operating expenses as stated in (a) (i) above, expressed as a percentage of the revalued net fixed assets in operation at the end of the calendar year.

*Section 5.15.* Except as the Bank shall otherwise agree, the Borrower shall not directly or indirectly acquire, or permit any other entity of the CEMIG Group to acquire, the ownership or effective control of any company or business, unless such acquisition is made in accordance with a financing plan satisfactory to the Bank.

*Section 5.16.* Except as the Bank shall otherwise agree, the Borrower shall not modify, terminate or fail to enforce the agreement and undertaking referred to in Section 7.01 (d) of this Agreement or give any waiver of any material provision thereof.

## Article VI

### REMEDIES OF THE BANK; AMENDMENT OF FIRST LOAN AGREEMENT

*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), or in Section 6.02 of this Agreement for the purposes of paragraph (j), 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 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 the State under the Project Agreement; and (b) Eletrobrás shall have failed to comply with any covenant or agreement on its part in the agreement providing for the loan referred to in (i) of Section 7.01 (d) of this Agreement or with the undertaking referred to in (ii) of such Section 7.01 (d).

*Section 6.03.* (a) Section 5.04 of the First Loan Agreement shall be deleted.

(b) Section 5.10 of the First Loan Agreement shall read as follows:

"*Section 5.10.* Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur, or permit any of the other entities of the CEMIG

Group to incur, any debt if by incurring such debt the debt of the CEMIG Group shall exceed 66-2/3% of the net fixed assets of the CEMIG Group.

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

“ 1. The term “ debt ” means debt other than debt incurred in the ordinary course of business and shall not include debt owed by any entity within the CEMIG Group to any other such entity.

“ 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 “ net fixed assets ” means gross fixed assets in operation less accrued depreciation plus the cost of construction work-in-progress.

“ 4. The determination of 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 assets and liabilities of the CEMIG Group.

“ 5. The term “ CEMIG Group ” means CEMIG and Eletrificação Rural de Minas Gerais and any other entities owned or effectively controlled by either of them, and includes any subsidiaries of either of them and any subsidiaries of such subsidiaries.

“ 6. Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt. ”

## 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 Project Agreement has been duly authorized or ratified by all necessary governmental action; and

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

(d) The Borrower has obtained from Eletrobrás, on terms and conditions satisfactory to the Bank : (i) a loan of not less than 22.2 billion cruzeiros for purposes of the Project;



and (ii) a firm undertaking to subscribe to increases of capital of the Borrower and make payments on account thereof as required to maintain its equity contribution to the Borrower's capital at a level of not less than 16% of total paid-in capital.

(e) Firm contractual arrangements have been made with respect to sale of electricity to the Borrower by Central Elétrica de Furnas S.A. on terms and conditions satisfactory to the Bank.

*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 State is authorized under its laws to enter into the Project Agreement, and that the Project Agreement has been executed and delivered on behalf of the State and constitutes a valid and binding obligation of the State in accordance with its terms;

(b) That the loan contract and the undertaking referred to in Section 7.01 (d) are valid and are binding on Eletrobrás; and

(c) That the contractual arrangements referred to in Section 7.01 (e) are valid and are binding on Central Elétrica de Furnas S.A.

*Section 7.03.* If the Loan Agreement, the Guarantee Agreement and the Project Agreement shall not have come into force and effect by August 1, 1966, the Loan Agreement, the Guarantee Agreement and the Project 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 the State of such date.

## *Article VIII*

### MISCELLANEOUS

*Section 8.01.* The Closing Date shall be April 30, 1971, 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 :

Centrais Elétricas de Minas Gerais, S.A.  
Rua Itambé No. 114  
Belo Horizonte, Brazil

Alternative address for cablegrams and radiograms :

CEMIG  
Belo Horizonte

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* George D. WOODS  
President

Centrais Elétricas de Minas Gerais, S.A. :

*By* C. MELLO AZEVEDO  
Authorized Representative

*By* Walter T. ALVARES  
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>
October 1, 1971 . . . . .	\$ 650,000	October 1, 1981 . . . . .	\$1,175,000
April 1, 1972 . . . . .	670,000	April 1, 1982 . . . . .	1,210,000
October 1, 1972 . . . . .	690,000	October 1, 1982 . . . . .	1,245,000
April 1, 1973 . . . . .	710,000	April 1, 1983 . . . . .	1,285,000
October 1, 1973 . . . . .	730,000	October 1, 1983 . . . . .	1,320,000
April 1, 1974 . . . . .	755,000	April 1, 1984 . . . . .	1,360,000
October 1, 1974 . . . . .	775,000	October 1, 1984 . . . . .	1,400,000
April 1, 1975 . . . . .	800,000	April 1, 1985 . . . . .	1,445,000
October 1, 1975 . . . . .	825,000	October 1, 1985 . . . . .	1,485,000
April 1, 1976 . . . . .	850,000	April 1, 1986 . . . . .	1,530,000
October 1, 1976 . . . . .	875,000	October 1, 1986 . . . . .	1,580,000
April 1, 1977 . . . . .	900,000	April 1, 1987 . . . . .	1,625,000
October 1, 1977 . . . . .	925,000	October 1, 1987 . . . . .	1,675,000
April 1, 1978 . . . . .	955,000	April 1, 1988 . . . . .	1,725,000
October 1, 1978 . . . . .	985,000	October 1, 1988 . . . . .	1,775,000
April 1, 1979 . . . . .	1,010,000	April 1, 1989 . . . . .	1,830,000
October 1, 1979 . . . . .	1,045,000	October 1, 1989 . . . . .	1,885,000
April 1, 1980 . . . . .	1,075,000	April 1, 1990 . . . . .	1,940,000
October 1, 1980 . . . . .	1,105,000	October 1, 1990 . . . . .	2,000,000
April 1, 1981 . . . . .	1,140,000	April 1, 1991 . . . . .	2,040,000

\* 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 . . . . .	2%
More than eleven years but not more than sixteen years before maturity . . . . .	3%
More than sixteen years but not more than twenty-one years before maturity . . . . .	4%
More than twenty-one years but not more than twenty-three years before maturity . . . . .	5%
More than twenty-three years before maturity . . . . .	6%

## SCHEDULE 2

## DESCRIPTION OF THE PROJECT

The Project is the Expansion Program and consists of: (1) the Jaguará dam and powerhouse on the Rio Grande about 370 kilometers west of Belo Horizonte; (2) primary transmission facilities from the Jaguará plant to Belo Horizonte and from the Jaguará plant to the Estreito hydroelectric plant; (3) two additional generating units to be installed in the existing Tres Marias hydroelectric plant; (4) secondary transmission facilities to reach areas of the State not now served; (5) distribution facilities for new customers; (6) a program of rural electrification to be carried out by Ermig; (7) the beginning of construction of a generating plant or plants in addition to Jaguará, when necessary; and (8) other construction as required for the operation and maintenance of all of the above facilities.

A. The main items included in the Project are:

## PART I

(a) A rockfill dam about 325 meters long and about 40 meters high with a concrete intake structure and powerhouse and a concrete spillway with tainter gates. The powerhouse will have space for six units, and four units with a capacity of 100 MW each will be installed initially. Each unit will be connected through transformers to a switchyard.

(b) Transmission facilities consisting of a 345-kv line about 365 kilometers long from the Jaguará plant to Belo Horizonte and a 345-kv line about 25 kilometers long from the Jaguará plant to the Estreito hydroelectric plant. In Belo Horizonte a 450 MVA substation will be built and at the Estreito plant a section bay will be installed to connect to the existing transmission system.

(c) Services and operating equipment required for this part of the Project.

## PART II

(a) Two 65 MW units (Nos. 5 and 6) to be installed in spaces already provided for them in the Tres Marias hydroelectric plant.

(b) About 3,000 kilometers of secondary transmission lines to reach new areas of the State.

(c) Distribution systems to serve about 250,000 new customers and about 200 new towns, villages and localities.

(d) Rural distribution systems consisting of about 2,000 kilometers of lines to serve about 25,000 customers.

(e) Beginning of construction of a generating plant or plants when necessary to meet the demand for electricity after the Jaguará plant becomes fully loaded.

(f) Other construction necessary for the operation and maintenance of this part of the Project.

B. It is expected that parts I and II [except Item II (e)] will be completed by the end of 1971 in order that the electricity generated by the Project may reach the expected market therefor.

C. Only the works described in part I will be financed out of the proceeds of the Loan.

### PROJECT AGREEMENT (JAGUARA POWER PROJECT)

AGREEMENT, dated March 15, 1966, between THE STATE OF MINAS GERAIS (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 Centrais Elétricas de Minas Gerais, S.A. (hereinafter called the Borrower) which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,<sup>1</sup> the Bank has agreed to make to the Borrower a loan in various currencies equivalent to forty-nine million dollars (\$49,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the State agree to undertake certain obligations to the Bank (including the provision of funds to the Borrower) as hereinafter in this Project Agreement set forth;

WHEREAS the State warrants and represents that it is authorized to undertake the obligations in this Project Agreement contained under State Laws No. 828 of December 14, 1951; No. 3086 of April 29, 1964 and No. 3214 of October 16, 1964; and

WHEREAS the State, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth,

NOW THEREFORE the parties hereto hereby agree as follows :

*Section 1.* Wherever used in this Project Agreement, unless the context otherwise requires, the terms defined in Section 1.02 of the Loan Agreement shall have the same meanings as therein set forth.

*Section 2.* The State covenants and warrants that the Expansion Program is of paramount importance to the power development plans of the State and that the Expansion Program shall have the highest priority in the allocation of the development funds of the State as provided in the laws of the State.

*Section 3.* The State shall : (a) take all such reasonable action as shall be necessary to enable the Borrower to carry out the Expansion Program with due diligence and efficiency; and (b) not take or permit any of its agencies to take any action which would prevent or interfere with the performance by the Borrower of its covenants, agreements and obligations under the Loan Agreement.

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<sup>1</sup> See p. 66 of this volume.

*Section 4.* (a) The State shall, as required by the laws of the State, reinvest in capital stock of the Borrower 80% of all dividends paid to the State by the Borrower and pay to Ermig 20% of such dividends for use in Ermig's rural electrification activities. (b) In addition, the State shall, promptly as needed by the Borrower to enable it to carry out the Expansion Program with due diligence and efficiency, pay to the Borrower, in accordance with the laws of the State (particularly paragraph 4 of Article 159 of Law No. 3214 of October 16, 1964), all such other funds as shall be required by the Borrower for that purpose.

*Section 5.* The State shall promptly transfer to the Borrower all funds paid to it by the Guarantor or by Eletrobrás or any of the agencies of the Guarantor for use in carrying out the Expansion Program.

*Section 6.* This Project Agreement shall come into force and effect on the Effective Date. If, pursuant to Section 7.03 of the Loan Agreement, the Loan Agreement shall be terminated, this Project Agreement and all obligations of the parties hereunder shall also terminate and the Bank shall notify the State thereof.

*Section 7.* If and when the entire principal amount of the Loan shall have been paid or caused to be paid by the Borrower (or shall have been cancelled), together with all interest and other charges which shall have accrued on the Loan, this Project Agreement and all obligations of the Bank and the State hereunder shall forthwith terminate.

*Section 8.* Any notice, demand or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project 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.

The addresses so specified are :

(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 the State :

Governador do Estado de Minas Gerais  
Palacio da Liberdade  
Belo Horizonte, Brazil

*Section 9.* Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement on behalf of the State may be taken or executed by the Governor of the State or such other person or persons as he shall designate in writing.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project 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 Minas Gerais :

By Mauricio C. BICALHO  
Authorized Representative

International Bank for Reconstruction and Development :

By George D. WOODS  
President

## AGREEMENT AMENDING THE GUARANTEE AGREEMENT (*YAGUARA POWER PROJECT*) OF 15 MARCH 1966<sup>1</sup>

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 the Guarantor and the Bank have executed a guarantee agreement (*Yaguara Power Project*) dated March 15, 1966 (hereinafter called the Guarantee Agreement) which is not yet effective; and

WHEREAS the Guarantor and the Bank desire to make certain amendments to the Guarantee Agreement as hereinafter provided :

NOW THEREFORE, the parties hereto hereby agree as follows :

*Section 1.01.* Wherever used in this Agreement, unless the context otherwise requires, the terms defined in the Loan Agreement<sup>2</sup> shall have the same meanings as therein set forth.

*Section 1.02.* The Guarantee Agreement shall be amended as follows :

(a) Section 3.06 shall be renumbered Section 3.06 (a).

(b) A new subsection (b) shall be added to Section 3.06, as follows :

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

(c) Sections 3.07 and 3.10 shall be deleted, and Sections 3.08 and 3.09 shall be renumbered 3.07 and 3.08, respectively.

*Section 1.03.* This Agreement shall not become effective until : (a) this Agreement shall have been duly registered by the Tribunal de Contas of the Guarantor; and (b) the Bank shall have received an opinion or opinions of counsel acceptable to it and evidence satisfactory to it that this Agreement is a valid and binding agreement of the Guarantor in accordance with its terms.

*Section 1.04.* This Agreement shall come into force and effect on the Effective Date of the Loan Agreement,<sup>2</sup> the Guarantee Agreement<sup>1</sup> and the Project Agreement.<sup>3</sup>

<sup>1</sup> See p. 54 of this volume.

<sup>2</sup> See p. 66 of this volume.

<sup>3</sup> See p. 92 of this volume.



*Section 1.05.* The Guarantor and the Bank reaffirm the provisions of the Guarantee Agreement except as amended by this Agreement.

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.

The United States of Brazil :

By Antonio Francisco PEREIRA  
Authorized Representative

International Bank for Reconstruction and Development :

By J. Burke KNAPP  
Vice President

AGREEMENT AMENDING THE LOAN AGREEMENT (*JAGUARA POWER PROJÉT*) OF 15 MARCH 1966<sup>1</sup>.

AGREEMENT, dated December 19, 1966, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and CENTRAIS ELÉTRICAS DE MINAS GERAIS, S.A. (hereinafter called the Borrower).

WHEREAS the Bank and the Borrower have executed a loan agreement (*Jaguara Power Project*) dated March 15, 1966 (hereinafter called the Loan Agreement) which is not yet effective; and

WHEREAS the Bank and the Borrower desire to make certain amendments to the Loan Agreement as hereinafter provided;

NOW THEREFORE, the parties hereto hereby agree as follows :

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

*Section 1.02.* The Loan Agreement shall be amended as follows :

(a) Paragraph 1. of Section 5.13 shall read as follows :

“ 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 and shall not include debt owed by any entity within the CEMIG Group to any other such entity. ”

<sup>1</sup> See p. 66 of this volume.

(b) Section 5.14 shall read as follows :

“ *Section 5.14.* Except as the Bank and the Borrower shall otherwise agree, the Borrower shall, and shall cause each of the other entities of the CEMIG Group to : (a) 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 rates of the CEMIG Group 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 business of the CEMIG Group in accordance with sound financial and public utility practices, using straight-line 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) revalue its assets, as permitted by the legislation of the Guarantor in effect on the date of this Agreement, at least once every calendar year, such revaluation to reflect a realistic valuation of such assets, and apply for the corresponding rate adjustments. ”

(c) The words “ or in Section 6.02 of this Agreement for the purposes of paragraph (j), of Section 5.02 of the Loan Regulations ” in Section 6.01 of the Loan Agreement shall be deleted and the following words substituted therefor : “ or in letters (a), (b) and (c) of Section 6.02 of this Agreement. ”

(d) The period at the end of letter (b) of Section 6.02 of the Loan Agreement shall be replaced by a semicolon and the following clauses shall be added thereafter :

“ and (c) 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 business of the CEMIG Group or the setting or adjustment of the rates of the CEMIG Group for the sale of electricity at such levels as shall be necessary to provide the CEMIG Group with revenues sufficient to insure the continued operation of the CEMIG Group'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, decrees, executive decrees and regulations, and any other legal provisions of a similar nature) directly or indirectly relating to the carrying on of the CEMIG Group's business and the determination and adjustment of the CEMIG Group's rates for the sale of electricity; and (d) 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. ”

(e) The following paragraphs (f) and (g) shall be added to Section 7.01 :

“(f) Except as the Bank shall otherwise agree, all necessary acts, consents and approvals to be performed or given by the Guarantor or the State or by any other political subdivision or any agency of the Guarantor or by any agency of the State or of any other political subdivision or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower to perform all of the covenants, agreements and obligations of the Borrower in the Loan Agreement contained, together with all necessary powers and rights in connection therewith, have been performed or given.

“(g) 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.”

(f) The following paragraph (d) shall be added to Section 7.02 :

“(d) That all acts, consents and approvals referred to in Section 7.01 (f), 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 to perform all of the covenants, agreements and obligations of the Borrower in the Loan Agreement contained.”

*Section 1.03.* This Agreement shall not become effective until : (a) the State shall have consented to this Agreement; and (b) the Bank shall have received an opinion or opinions from counsel acceptable to it and evidence satisfactory to it that this Agreement is a valid and binding agreement of the Borrower in accordance with its terms.

*Section 1.04.* This Agreement shall come into force and effect on the Effective Date of the Loan Agreement,<sup>1</sup> the Guarantee Agreement<sup>2</sup> and the Project Agreement.<sup>3</sup>

*Section 1.05.* The Bank and the Borrower reaffirm the provisions of the Loan Agreement except as amended by this Agreement.

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 de Minas Gerais, S.A. :

By John R. CORRIM  
Authorized Representative

<sup>1</sup> See p. 66 of this volume.

<sup>2</sup> See p. 54 of this volume.

<sup>3</sup> See p. 92 of this volume.