

No. 9628

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

**Guarantee Agreement—*Volta Grande Hydroelectric Project*
(with annexed Loan Regulations No. 4, as amended,
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 Rio de Janeiro on 23 October 1968**

Authentic text : English.

*Registered by the International Bank for Reconstruction and Development
on 13 June 1969.*

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

**Contrat de garantie — *Projet hydro-électrique Volta
Grande* (avec, en annexe, le Règlement n° 4 sur les
emprunts, tel qu'il a été modifié, le Contrat d'emprunt
entre la Banque et la Centrais Elétricas de Minas
Gerais, S. A., et le Contrat relatif au projet entre la
Banque et l'État de Minas Gerais). Signé à Rio de
Janeiro le 23 octobre 1968**

Texte authentique : anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développe-
ment le 13 juin 1969.*

GUARANTEE AGREEMENT¹

AGREEMENT, dated October 23, 1968, between 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 Elétricas de Minas Gerais, S.A. (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to twenty-six million six hundred thousand dollars (\$26,600,000), 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 agreement³ also of even date herewith;

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower; and

WHEREAS the Guarantor represents and warrants that the giving of such guarantee is authorized by law No. 1518 of December 24, 1951; Articles 22 and 23 of Law No. 1628 of June 20, 1952; Decree No. 57,482 of December 24, 1965 pursuant to Law No. 4131 of September 3, 1962; 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 as amended February 9, 1967,⁴ subject, however, to the modification thereof set forth in Section 1.01 of the Loan Agreement (said Loan Regulations

¹ Came into force on 27 February 1969, upon notification by the Bank to the Government of Brazil.

² See p. 206 of this volume.

³ See p. 234 of this volume.

⁴ See p. 204 of this volume.

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 several 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, all as set forth in the Loan Agreement and 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 or of any of its political subdivisions or of any agency of any such political subdivision 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 agency of the Guarantor, including Banco Central 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. On the part of the Bank, such information shall include such information as shall be available to the Bank regarding the performance of the obligations of the Borrower under the Loan Agreement.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof and shall promptly inform each other 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, and free from all restrictions, 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. (a) The Guarantor will exercise every power, right and recourse available to it to the end that it will not take or permit any of its political subdivisions or any of its agencies (including Eletrobrás, and Banco Central 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 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.

(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.

Section 3.06. 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; 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 3.07. The Guarantor shall take all such measures as shall be necessary in order to facilitate the importation by the Borrower of goods to be financed out of the proceeds of the Loan and purchased outside Brazil in accordance with the provisions of the Loan Agreement.

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 5.02. 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

Cable address :

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

Cable address :

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 to be delivered in the City of Rio de Janeiro, Brazil, as of the day and year first above written.

Brazil :

By Antonio DELFIM NETO
Ministro da Fazenda

By Jayme ALIPIO DE BARROS
Procurador Geral da Fazenda

International Bank for Reconstruction and Development :

By Robert S. McNAMARA
President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 4, DATED 15 FEBRUARY 1961,
AS AMENDED 9 FEBRUARY 1967

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

[Not published herein. See *United Nations, Treaty Series, vol. 598, p. 270.*]

LOAN AGREEMENT

AGREEMENT, dated October 23, 1968, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank), and CENTRAIS ELETRICAS DE MINAS GERAIS, S.A. (hereinafter called the Borrower).

Article I

LOAN REGULATIONS; DEFINITIONS

Section 1.01. The parties to this Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961 as amended February 9, 1967,¹ with the same force and effect as if they were fully set forth herein, subject, however, to the following modification thereof (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations):

Clause (b) of the second sentence of Section 4.01 of the Loan Regulations 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 herewith² 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 Project.

(c) The term "Eletrobrás" means Centrais Elétricas Brasileiras, S.A.—Eletrobras, an agency of the Guarantor, or any successor thereto.

(e)³ 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.

(g) The term "BNDE" means Banco Nacional do Desenvolvimento, an agency of the Guarantor.

(h) The term "First Loan Agreement" means the loan agreement between the Bank, Companhia de Electricidade do Alto Rio Grande and the Borrower dated July 17, 1953.⁴

¹ See p. 204 of this volume.

² See p. 234 of this volume.

³ Sub-paragraphs (e) to (k) should have appeared as sub-paragraphs (d) to (j). (Information supplied by the Bank.)

⁴ United Nations, *Treaty Series*, vol. 190, p. 149.

(i) The term "Second Loan Agreement" means the loan agreement between the Bank and the Borrower dated March 15, 1966¹, as amended by the agreement between the Bank and the Borrower dated December 19, 1966.¹

(j) The term "Eletrobrás Loan Agreement" means the agreement dated August 12, 1968 between Eletrobrás and the Borrower providing for a loan by Eletrobrás to the Borrower in the amount of NCr\$50,000,000 in currency of the Guarantor for the expansion of the CEMIG Group's transmission and distribution system.

(k) The term "Eletrobrás Undertaking" means the letter (No. 473/68) from Eletrobrás to the Borrower dated August 30, 1968 in which Eletrobrás undertakes, during the period of the construction of the Project, 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.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to twenty-six million six hundred thousand dollars (\$ 26,600,000).

Section 2.02. (a) 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.

(b) 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, this Agreement and the Loan Regulations and in accordance with the allocation of the proceeds of the Loan set forth in Schedule I to this Agreement, as such allocation shall be modified from time to time by further agreement between the Borrower and the Bank.

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

Section 2.04. Withdrawals from the Loan Account may be made on account of expenditures made prior to the Effective Date but after the date of this Agreement.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Loan not withdrawn from time to time.

¹ United Nations, *Treaty Series*, vol. 599, p. 52.

Section 2.06. The Borrower shall pay interest at the rate of six and one-half per cent (6 1/2 %) per annum on the principal amount of the Loan 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 (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 2 to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan in accordance with the provisions of this Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, (i) the goods to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in February 1968, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 4 to this Agreement, and (ii) contracts for the procurement of such goods shall be subject to the approval of the Bank.

Section 3.03. Except as the Bank shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VI of 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 the Project with due diligence and efficiency and in conformity with sound engineering, financial and public utility practices.

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

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

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

Section 5.04. (a) 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, and shall cause each of the other entities of the CEMIG Group to, 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.

Section 5.05. The Borrower shall have the financial statements (balance sheet and statements of income and surplus) of the CEMIG Group audited and 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 reports.

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 proceeds 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.

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 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 5.08. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any of the assets of the 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 that 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; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date; or (iv) any lien in favor of the Guarantor, on terms and conditions satisfactory to the Guarantor, the Bank and the Borrower, and by its terms expressly subordinated to the claims of the Bank hereunder, which is created to secure obligations of the Borrower to the Guarantor arising out of the Guarantor's guarantee of the Loan.

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 Project Agreement, or the

¹ See p. 196 of this volume.

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 Project Agreement or the Bonds.

Section 5.11. (a) The Borrower shall, and shall cause each of the other entities of the CEMIG Group to, take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, the Borrower undertakes to insure the goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

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 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 5.13. Except as the Bank shall otherwise agree, until the Project shall have been completed, the Borrower shall, before undertaking or permitting the CEMIG Group to undertake any major expansion of its generating facilities, furnish to the Bank evidence that such proposed expansion is in accordance with the plan of the Guarantor for the development of generating facilities in the South-Central region of Brazil and that the Borrower will have adequate financial resources for the carrying out of such proposed expansion.

For the purposes of this Section, a "major expansion" shall be deemed to be a project or addition the aggregate cost of which shall be in excess of the equivalent of three million dollars (\$ 3,000,000).

Section 5.14. (a) 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 $66 \frac{2}{3}$ % of the total fixed assets of the CEMIG Group.

(b) For the purposes of this Section :

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.

(c) The Borrower shall furnish to the Bank annually, as soon as practicable after the end of each calendar year, a statement of the following :

- (i) The CEMIG Group's total fixed assets as defined in paragraph (b) of this Section, as of the end of such calendar year;
- (ii) The outstanding debt of the CEMIG Group as defined in paragraph (b) of this Section, as of the end of such calendar year;
- (iii) The arithmetical ratio of (ii) to (i);
- (iv) The CEMIG Group's estimated fixed capital expenditures less estimated retirements, for the calendar year then in progress;
- (v) The estimated increase in debt of the CEMIG Group as defined in paragraph (b) of this Section for the calendar year then in progress; and
- (vi) The arithmetical ratio of the sum of (ii) and (v) to the sum of (i) and (iv).

All items in such statement shall be expressed in currency of the Guarantor. In calculating the amount of debt in currency of the Guarantor subject to revaluation, account will be taken of any law or contract relating thereto.

Section 5.15. 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.

Section 5.16. 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 5.17. Except as the Bank shall otherwise agree, the Borrower shall not modify, terminate or fail to enforce the agreements providing for the loans and the undertaking referred to in Section 7.01 (c) of this Agreement or the agreement providing for the loan 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

Section 6.01. (i) If any event specified in paragraph (a), 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 a default shall occur in the payment of principal or interest or any other payment required under any other loan agreement between the Bank and the Borrower or under any bond delivered pursuant thereto or under any credit agreement between the Association and the Borrower and such default shall continue for a period of thirty days, or (iii) if a default shall occur in the payment of principal or interest or any other payment required under any loan agreement or under any guarantee agreement between the Guarantor and the Bank or under

any bond delivered pursuant to any such agreement or under any credit agreement between the Association and the Guarantor under circumstances which would make it unlikely that the Guarantor would meet its obligations under the Guarantee Agreement and such default shall continue for a period of thirty days, or (iv) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations or in Section 6.02 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 of any such event or default, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. The following events are specified for the purposes of paragraph (b) 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.

(b) Eletrobrás shall have failed to comply with any obligation on its part contained in the Eletrobrás Loan Agreement, the Eletrobrás Undertaking, or the arrangements providing for the loan referred to in Section 7.01 (c) of this Agreement.

(c) BNDE shall have failed to comply with any obligation on its part contained in the arrangements providing for the loan referred to in Section 7.01 (d) of this Agreement.

(d) A change in the legislation of the Guarantor shall have occurred, which, in the judgement 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 ensure the continued operation of the CEMIG Group's business in accordance with sound financial and public utility practices.

For the purposes of this paragraph (d) 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 CEMIG Group's business and the determination and adjustment of the CEMIG Group's rates for the sale of electricity.

Section 6.03. The Bank and the Borrower agree that for the purposes of the First Loan Agreement, the Second Loan Agreement and this Loan Agreement, respectively, an event referred to in paragraph (c) of Section 5.02 of the Loan Regulations No. 4 of the Bank applicable to any such Agreement shall be deemed to be an event under paragraph (c) of Section 5.02 of the Loan Regulations No. 4 of the Bank applicable to any other such Agreement.

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 (*d*) of the Loan Regulations :

(*a*) The execution and delivery of the Project Agreement has been duly authorized or ratified by all necessary governmental action.

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

(*c*) The Borrower has made arrangements satisfactory to the Bank for a loan from Eletrobrás in currency of the Guarantor of not less than NCr\$55,000,000 for purposes of the Project.

(*d*) The Borrower has made arrangements satisfactory to the Bank for a loan from BNDE in currency of the Guarantor of not less than NCr\$30,000,000 for purposes of expanding the CEMIG Group's transmission and distribution system.

(*e*) 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.

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 duly 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 Eletrobrás Loan Agreement, the Eletrobrás Undertaking, and the arrangements providing for the loan referred to in Section 7.01 (*c*) are valid and are binding obligations of Eletrobrás in accordance with their terms;

(*c*) That the arrangements providing for the loan referred to in Section 7.01 (*d*) are valid and are binding obligations of BNDE in accordance with their terms; and

(*d*) 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 to perform all of the covenants, agreements and obligations of the Borrower in the Loan Agreement contained.

Section 7.03. If this Agreement shall not have come into force and effect by March 1, 1969, this Agreement and all obligations of the parties hereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for purposes of this Section. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be January 31, 1975, or such later date as may be agreed by the Bank.

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

For the Bank :

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

Cable address :

Intbafrad
Washington, D.C.

For the Borrower :

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

Cable address :

CEMIG
Belo Horizonte

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 to be delivered in the City of Rio de Janeiro, Brazil, as of the day and year first above written.

International Bank for Reconstruction and Development :

By Robert S. McNAMARA
President

Centrais Elétricas de Minas Gerais, S.A. :

By João Camilo PENNA
Authorized Representative

By Paulo MAFRA
Authorized Representative

SCHEDULE 1

ALLOCATION OF PROCEEDS OF LOAN

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
1. Turbines and Generators	10,200,000
2. Miscellaneous Electrical Equipment	3,100,000
3. Miscellaneous Mechanical Equipment	2,000,000
4. Transmission	10,400,000
5. Engineering and other Services	900,000
TOTAL	<u>26,600,000</u>

SCHEDULE 2

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, 1975	365,000	August 15, 1984	670,000
August 15, 1975	375,000	February 15, 1985	690,000
February 15, 1976	390,000	August 15, 1985	715,000
August 15, 1976	400,000	February 15, 1986	735,000
February 15, 1977	415,000	August 15, 1986	760,000
August 15, 1977	430,000	February 15, 1987	785,000
February 15, 1978	440,000	August 15, 1987	810,000
August 15, 1978	455,000	February 15, 1988	835,000
February 15, 1979	470,000	August 15, 1988	865,000
August 15, 1979	485,000	February 15, 1989	895,000
February 15, 1980	500,000	August 15, 1989	920,000
August 15, 1980	520,000	February 15, 1990	950,000
February 15, 1981	535,000	August 15, 1990	985,000
August 15, 1981	550,000	February 15, 1991	1,015,000
February 15, 1982	570,000	August 15, 1991	1,045,000
August 15, 1982	590,000	February 15, 1992	1,080,000
February 15, 1983	610,000	August 15, 1992	1,115,000
August 15, 1983	630,000	February 15, 1993	1,155,000
February 15, 1984	650,000	August 15, 1993	1,195,000

* 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 %
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 twenty-one years before maturity	5 %
More than twenty-one years but not more than twenty-three years before maturity	6 %
More than twenty-three years before maturity	6 ½ %

SCHEDULE 3

DESCRIPTION OF THE PROJECT

The Project consists of the Volta Grande Generating Station on the Rio Grande and transmission facilities, as follows :

(1) A powerhouse and associated civil and ancillary works with hydroelectric units aggregating approximately 400 Mw; and

(2) Associated 345 Kv transmission facilities.

The Project also includes technical and management consulting services and training for the staff of the Borrower.

The Project is expected to be completed in the second half of 1974.

SCHEDULE 4

SUPPLEMENTARY PROCEDURES FOR PROCUREMENT

1. With respect to contracts for the procurement of goods estimated to cost in excess of \$ 100,000 equivalent :

(a) Prior to inviting bids, evidence satisfactory to the Bank of the methods for procurement of such goods will be furnished to the Bank, including : (i) names of countries notified of the Borrower's intention to invite bids and information on advertisements placed in newspapers and other publications; (ii) where prequalification is used, names of firms expressing an interest in prequalifying as bidders, of those to be invited to prequalify, and of those which the Borrower proposes to prequalify, together with the reasons for rejecting those not prequalified.

(b) Before issuing any specification or bidding documents for the purchase of such goods, the Borrower will submit copies thereof to the Bank for its approval.

(c) Bidders will be given all pertinent information regarding the matters covered in paragraphs 3 and 4 below.

(d) The Borrower will, before making any award, submit to the Bank for its approval the Borrower's analysis of bids and recommendation for award of the contract. The Bank will endeavor to take action thereon within 30 days of receipt.

(e) If the contract to be awarded differs substantially from the terms and conditions of the bidding documents approved by the Bank, the Borrower will obtain the approval of the Bank before executing the contract.

(f) As soon as a letter of intent has been issued or a contract has been executed, a copy thereof will be sent to the Bank.

2. With respect to contracts for the procurement of goods estimated to cost \$100,000 equivalent or less, copies of all tender documents, including the Borrowers' evaluation report, evidence of advertising procedures, and a copy of the executed contract will be sent to the Bank at the time the first request for disbursement relating to the respective contract is made.

3. The Borrower intends to invite firms producing goods in Brazil to participate in the international competitive bidding. In the case of goods produced in Brazil, the Borrower may award the order to the lowest Brazilian bidder offering satisfactory terms and conditions, provided that his offered price does not exceed the offered price of the lowest acceptable foreign bidder by more than 15 %. Comparison of bids will be made for goods delivered at Project site and without taking into account customs duties. For firms in Brazil, the delivery at the site price will comprise the F.O.B. plant cost plus freight, insurance and other costs to the Project site. For non-Brazilian firms, the delivery price will be based on C.I.F. landed cost, port of entry, before customs duties, plus inland freight, insurance and other costs to the Project site. As the 15 % preference allowed firms in Brazil is in lieu of customs duties, the 15 % will be added to the C.I.F. landed cost (excluding customs duties) of the non-Brazilian goods, before inland freight, insurance and other costs. In the case of bids composed of both cruzeiros and foreign currency the cruzeiro portion thereof will be dealt with as a Brazilian bid and the foreign exchange portion as a non-Brazilian bid.

4. For comparison purposes all bids after evaluation will be converted into cruzeiros at the Bid Comparison Rate of Exchange. The Bid Comparison Rate of Exchange is understood to be the dollar selling rate of the Banco Central do Brasil plus the exchange surcharge (but not to exceed 30 %), if any, prevailing on the date 30 days before the date on which bids are closed. It is further understood

that the Bank will, on its own initiative or at the request of the Guarantor or the Borrower, reconsider and, if necessary, revise the Bid Comparison Rate of Exchange, when ever there should be a substantial change in the Brazilian exchange system which would, in the judgment of the Bank, render such rate unsuitable for bid comparison purposes.

5. Spare parts required to be compatible with existing equipment and such minor items as are, for reasons of economy, customarily procured without competition are excepted from the requirement of international competitive bidding set forth in Section 3.02 of this Agreement.

PROJECT AGREEMENT

AGREEMENT, dated October 23, 1968, 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,¹ the Bank has agreed to make to the Borrower a loan in various currencies equivalent to twenty-six million six hundred thousand dollars (\$26,600,000), 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.

¹ See p. 206 of this volume.

Section 2. The State covenants and warrants that the Project is of paramount importance to the power development plans of the State and that the Project 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 Project 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.

Section 4. (a) The State shall, as required by the laws of the State, reinvest in capital stock of the Borrower not less than 80 % of all dividends paid to the State by the Borrower and shall invest in other entities of the CEMIG Group the remainder of such dividends.

(b) The State shall, as required by the laws of the State, invest in capital stock of the Borrower the proceeds of the Sole Tax (*Imposto Unico*), established by Federal Laws 2308 of 1954 and 4676 of 1964, allocated to the State.

(c) In addition to the obligations contained in paragraphs (a) and (b) of this Section 4, the State shall, promptly as needed by the Borrower to enable it to carry out the Project 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 Project.

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

Cable address :

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 to be delivered in the City of Rio de Janeiro, Brazil, as of the day and year first above written.

The State of Minas Gerais :

By Israel PINHEIRO

Authorized Representative
Governador

International Bank for Reconstruction and Development :

By Robert S. McNAMARA
President
