
OFFICIAL
DOCUMENTS

LOAN NUMBER 1895 BR

Loan Agreement

(ELETROSUL Second Power Transmission Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CENTRAIS ELÉTRICAS DO SUL DO BRASIL S.A.
- ELETROSUL

and

CENTRAIS ELÉTRICAS BRASILEIRAS S.A.
- ELETROBRÁS

Dated *October 6*, 1980

LOAN AGREEMENT

AGREEMENT, dated October 6, 1980 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and CENTRAIS ELÉTRICAS DO SUL DO BRASIL S.A. - ELETROSUL (hereinafter called the Borrower) and CENTRAIS ELÉTRICAS BRASILEIRAS S.A. - ELETROBRÁS (hereinafter called ELETROBRÁS).

WHEREAS (A) the Borrower has requested the Bank to assist in the financing of the Project described in Schedule 2 to this Agreement by making the Loan as hereinafter provided;

(B) the Borrower intends to secure additional external financing (directly, or with the agreement of the Bank through ELETROBRÁS) in an amount equivalent to about sixty-five million dollars (\$65,000,000) by March 31, 1981 (hereinafter called the Private Bank Loan) for purposes, inter alia, of assisting in financing the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to make the Loan available to the Borrower upon the terms and conditions set forth hereinafter;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated March 15, 1974, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "ELETROBRÁS" means Centrais Elétricas Brasileiras S.A. - ELETROBRÁS, a sociedade de economia mista, organized under the laws of the Guarantor, which is the holder of the majority of the Borrower's shares, or any successor thereto;

(b) "Global Guarantee Fund" means the Reserva Global de Garantia of the Guarantor, established by Decreto-Lei No. 1383 of December 26, 1974 of the Guarantor, and regulated by Portaria No. 365 of March 25, 1975, and by Portaria No. 1,032 of August 2, 1977, both of the Guarantor's Minister of Mines and Energy, to supplement, when necessary, the revenues obtained by the electric power companies in Brazil from the sale of electricity, in order to ensure the economic and financial equilibrium of such companies;

(c) "Prior Loan Agreement" means the Loan Agreement (ELETROSUL Transmission Project) dated February 23, 1977, between the Bank and the Borrower for Loan No. 1343 BR;

(d) "Subsidiary Loan Agreement" means the Subsidiary Loan Agreement (ELETROSUL Transmission Project) dated February 23, 1977, between the Borrower, ELETROBRÁS and the Bank for Loan No. 1343 BR; and

(e) "Investment Program" means the Borrower's program for the expansion of its power generation and transmission system during the years 1980 through 1986, as set forth in Schedule 5 to this Agreement.

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 one hundred twenty-five million dollars (\$125,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable costs of goods and services required for the Project and to be financed out of the proceeds of the Loan.

Section 2.03. Except as the Bank may otherwise agree, contracts for the purchase of goods required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.04. The Closing Date shall be December 31, 1984 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

Section 2.06. The Borrower shall pay interest at the rate of eight and one-quarter per cent (8.25%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower shall carry out the Project with due diligence and efficiency and in conformity with appropriate engineering, financial and public utility practices.

Section 3.02. In order to assist the Borrower: (i) in carrying out engineering for the Project; (ii) in high voltage systems planning and design; and (iii) in the preparation of final designs for the Ilha Grande project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank.

Section 3.03. (a) The Borrower undertakes to insure, or make adequate provision for the insurance of, the imported goods for the Project to be financed out of the proceeds of the Loan

against hazards incident to the 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.

(b) Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan for the Project to be used exclusively for the Project.

Section 3.04. (a) The Borrower shall promptly furnish to the Bank, upon request, the plans, specifications, reports, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) The Borrower shall: (i) maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan, and to disclose the use thereof in the Project; (ii) enable the Bank's accredited representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds.

(c) The Borrower shall enable the Bank's representatives to examine all plants, installations, sites, works, buildings, property and equipment of the Borrower and any relevant records and documents.

(d) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.

Section 3.05. The Borrower shall take or cause to be taken all such action as shall be necessary to acquire all such land and

rights in respect of land as shall be required for the construction (and operation) of the facilities included in the Project and, upon the request of the Bank, shall furnish to the Bank, promptly after such acquisition, evidence satisfactory to the Bank that such land and rights in respect of land are available for purposes related to the Project.

Section 3.06. The Borrower shall take or cause to be taken all reasonable measures to ensure that the Project is carried out with due regard to ecological and environmental factors.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall at all times maintain its corporate existence and right to carry on its operations, and shall take all steps necessary to acquire, maintain and renew all rights, powers, privileges, concessions and franchises which are necessary or useful in the conduct of its business.

Section 4.02. The Borrower shall operate and maintain its plants, equipment and property, and from time to time make all necessary renewals and repairs thereof, all in accordance with appropriate engineering and public utility practices.

Section 4.03. The Borrower shall at all times carry on its operations, manage its affairs, maintain its financial position, and plan the future expansion of its electric power system, all in accordance with appropriate business, financial and public utility practices and under the supervision of experienced and competent management.

Section 4.04. The Borrower shall 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 appropriate practice.

ARTICLE V

Financial Covenants

Section 5.01. The Borrower shall maintain records adequate to reflect, in accordance with consistently maintained appropriate accounting practices, its operations and financial condition.

Section 5.02. The Borrower shall: (i) furnish to the Bank, not later than three months after the end of each fiscal year, its statement of income and expenses for that year together with its forecasted statement of income and expenses for the following year; (ii) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning the accounts and financial statements of the Borrower and the audit thereof as the Bank shall from time to time reasonably request.

Section 5.03. (a) The Borrower represents that at the date of this Agreement no lien exists on any of its assets as security for any debt except as otherwise currently reported to the Bank or stated in writing.

(b) The Borrower undertakes that, except as the Bank may otherwise agree: (i) if the Borrower shall create any lien on any of its assets as security for any debt, such lien will equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan, and in the creation of any such lien express provision will be made to that effect, at no cost to the Bank; and (ii) if any statutory lien shall be created on any assets of the Borrower as security for any debt, the Borrower shall grant, at no cost to the Bank, an equivalent lien satisfactory to the Bank to secure the payment of the principal of, and interest and other charges on, the Loan; provided, however, that the foregoing provisions of this paragraph shall not apply to: (A) 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 (B) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

Section 5.04. Except as the Bank may otherwise agree, the Borrower shall: (i) obtain title to all goods financed out of the proceeds of the Loan free and clear of all encumbrances; and (ii) 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 its business and undertaking, including the Project, unless the Borrower shall first pay, or make adequate provision satisfactory to the Bank for payment of, all of the Loan which shall then be outstanding and unpaid; provided, however, that the Borrower may sell or otherwise dispose of, or permit the sale or disposal of, any property which shall have become obsolete, worn-out or unnecessary for use in its plant.

Section 5.05. (a) Except as the Bank may otherwise agree, the Borrower shall not, until the Project shall have been completed, undertake, or permit to be undertaken on its behalf, any major expansion project, other than the Investment Program, unless it has first furnished to the Bank evidence satisfactory to the Bank that: (i) such expansion project is economically justified; (ii) the Borrower will have adequate financial resources for the carrying out of such expansion project; and (iii) such expansion project, in the case of a power generation or transmission project, is in accordance with plans for power generation and transmission approved by ELETROBRÁS for the South and Southeast regions of Brazil.

For the purposes of this Section, a "major expansion project" shall be deemed to be a project or acquisition of new assets the aggregate cost of which is estimated to be in excess of the equivalent of two per cent (2%) of gross fixed assets in operation plus work-in-progress of the Borrower.

(b) The Borrower shall exchange views with the Bank regarding any proposed increase or reduction by 15% or more of its forecasted expenditures in any one year for the Ilha Grande hydroelectric project, adjusted to take due account of inflation in Brazil.

Section 5.06. Except as the Bank may otherwise agree:

(a) The Borrower shall take all such action (including, in such cases where automatic rate adjustments are not permitted, action with respect to the filing, within a period of not more than five months after the end of every calendar year, of appropriate applications in respect of rates) as shall be necessary or advisable: (i) to cause the Borrower's rates for the sale of electricity to be set and maintained at such levels as will produce revenues, as provided by the legislation of the Guarantor in effect on the date of this Agreement, sufficient to ensure the

continued operation of the Borrower's business in accordance with appropriate 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) to enable the agency or agencies of the Guarantor responsible for the setting and adjustment of such rates to act promptly in respect thereof;

(b) the Borrower shall, as provided by the legislation of the Guarantor in effect on the date of this Agreement, revalue its assets at least once every calendar year and apply for the corresponding rate adjustments; and

(c) whenever it shall be necessary or advisable for the Borrower to receive transfers of funds from the Global Guarantee Fund to supplement its revenues in order to achieve the objective set forth in paragraph (a) of this Section, the Borrower shall take all necessary steps to maintain its eligibility to such transfers of funds.

Section 5.07. (a) Except as the Bank may otherwise agree, the Borrower shall not incur any debt: (i) if after the incurrence of such debt, the debt of the Borrower shall exceed 66.7% of the value of its total fixed assets; and (ii) with an original term of less than eight years if at the time of such incurrence the total outstanding principal of such debt (including the debt proposed to be incurred but excluding any debt to be repaid out of the proceeds thereof) shall exceed 5% of the Borrower's total fixed assets.

For the purposes of this Section:

- (1) the term "debt" means any outstanding debt maturing by its terms after one year from the date on which it is incurred;
- (2) debt shall be deemed to be incurred: (A) under a loan agreement (including the Loan Agreement) on the date and to the extent the amount of the loan is drawn down and outstanding pursuant to such loan agreement, and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding;

- (3) the term "total fixed assets" means gross fixed assets in operation less the reserves for depreciation and amortization, plus the cost of construction work-in-progress, all such items to be revalued on the basis of the latest applicable official revaluation coefficients; and
- (4) whenever it shall be necessary to value in the currency of the Guarantor debt payable in another currency such valuation shall be made on the basis of the rate of exchange at which such other currency is obtainable by the Borrower, at the time such valuation is made, for the purposes of servicing such debt, or, if such other currency is not so obtainable, at the rate of exchange that will reasonably be determined by the Bank.

Section 5.08. The Borrower shall, if necessary in order to enable ELETROBRÁS to comply with the provisions of Section 6.04 of this Agreement, take all appropriate action to permit ELETROBRÁS to convert promptly into an equity contribution to the Borrower's capital such amount of the Borrower's debt service requirements on, or outstanding principal balance of, debt of the Borrower held by ELETROBRÁS as shall be required for the purpose of compliance therewith.

ARTICLE VI

Covenants of ELETROBRÁS

Section 6.01. Without any limitation or restriction upon any of its other obligations under this Agreement, ELETROBRÁS shall take or cause to be taken all action, including the provisions of funds, facilities, services and other resources, necessary or appropriate to enable the Borrower to perform its obligations under this Agreement.

Section 6.02. Except as the Bank shall otherwise agree, ELETROBRÁS shall, during the execution of the Investment Program, promptly re-invest in equity of the Borrower an amount equivalent to the amount of dividends received from the Borrower during such period.

Section 6.03. (a) ELETROBRÁS shall, until the completion of the Ilha Grande project, annually by February 15 of each year,

inform the Bank of the investment amount authorized for the Ilha Grande project for such year, and furnish to the Bank an appropriate financing plan for the Ilha Grande project for such year.

(b) ELETROBRÁS shall inform the Bank from time to time of any proposed increase or reduction by 15% or more of the Borrower's forecasted expenditures in any one year for the Ilha Grande hydroelectric project, adjusted to take due account of inflation in Brazil, sufficiently in advance of the time a final decision on such proposed increase or reduction is to be made, to afford the Bank a reasonable opportunity to exchange views thereon.

Section 6.04. ELETROBRÁS shall convert into an equity contribution to the Borrower's capital such amount of the Borrower's debt service requirements on, or outstanding principal balance of, debt of the Borrower held by ELETROBRÁS, as shall be required to enable the Borrower to maintain the ratio of its annual net revenues to its total annual debt service requirements at a level of not less than 1.5 during each calendar year until completion of the Project.

For purposes of this Section:

- (1) the term "net revenues" means gross revenues from all sources less all expenses of operation and maintenance in connection with the generation, transmission and distribution of electricity, administration and taxes, if any, but before deduction of provisions for depreciation and amortization of assets, interest and other charges on debt;
- (2) the term "debt service requirements" means the aggregate amount of amortization (including sinking fund payments, if any) of, and interest (excluding interest financed by loans) and other charges on, debt; and
- (3) the term "debt" means any debt as defined in Section 5.07.

ARTICLE VII

Amendment to Prior Loan Agreement and Subsidiary Loan Agreement

Section 7.01. (a) The Prior Loan Agreement is hereby amended as follows:

- (i) Delete Section 5.07 thereof and substitute therefor Section 5.07 of this Agreement; and
- (ii) Delete Section 5.08 thereof and substitute therefor Section 5.08 of this Agreement.

(b) The Subsidiary Loan Agreement is hereby amended as follows:

Delete Section 4.04 thereof and substitute therefor Section 6.04 of this Agreement.

ARTICLE VIII

Remedies of the Bank

Section 8.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) a substantial change in the Borrower's Estatutos shall have been made without the agreement of the Bank;

(b) an event shall have occurred or any action shall have been taken, including any action by the Guarantor, which shall materially and adversely affect the carrying out of the Project, the carrying on of the Borrower's business or the setting or adjustment of the Borrower's rates for the sale of electricity at such levels as shall be necessary to provide the Borrower with revenues sufficient to ensure the continued operation of its business in accordance with appropriate financial and public utility practices; provided, however, that to the extent that such revenues shall not be sufficient for the purpose, transfers of funds from the Global Guarantee Fund may be made by the Guarantor to the Borrower in order to supplement such revenues;

(c) the agreement or agreements providing for the Private Bank Loan, in form and substance satisfactory to the Bank, have not been entered into by March 31, 1981 or such other date as may be agreed between the Bank and the Borrower, or the right of the Borrower to utilize the Private Bank Loan shall have been suspended or cancelled in whole or in part pursuant to the terms thereof or any part of the principal amount of the Private Bank Loan has become due and payable in advance of maturity pursuant to the terms thereof;

(d) ELETROBRÁS shall have failed to perform any of its covenants, agreements or obligations under this Agreement; and

(e) any political subdivision of the Guarantor, or any agency of such subdivision, shall have taken any action which shall materially and adversely affect the performance by the Borrower or ELETROBRÁS of any of their obligations under this Agreement.

Section 8.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (h) thereof:

(a) any event specified in paragraphs (a) or (b) or (d) or (e) of Section 8.01 of this Agreement shall occur; and

(b) the Private Bank Loan shall have become due and payable prior to its agreed maturity in accordance with the terms thereof.

ARTICLE IX

Effective Date; Termination

Section 9.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions; namely that the Loan Agreement has been duly registered by Banco Central do Brasil.

Section 9.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Loan Agreement has been duly registered by Banco Central do Brasil; and

(b) that all necessary acts, consents and approvals to be performed or given by the Guarantor, its political subdivisions or agencies, or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower and ELETROBRÁS to perform all of their obligations in this Agreement contained (including the obligations thereof relating to procurement of goods for the Project) together with all necessary powers and rights in connections therewith, have

been duly and validly performed or given and that no other such acts, consents or approvals are required in order to authorize the carrying out of the Project and to enable the Borrower and ELETROBRAS to perform all of their obligations in this Agreement contained.

Section 9.03. The date *January 6, 1981* is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE X

Addresses

Section 10.01. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Centrais Elétricas do Sul
do Brasil S.A. - ELETROSUL
Deputado Antonio Edu Vieira
88000 Pantanal Florianópolis, S.C.
Brazil

Cable address:

ELETROSUL
Florianópolis
Brazil

Telex:

0482-164

For ELETROBRÁS:

Centrais Elétricas Brasileiras S.A. -
ELETROBRÁS
Av. Presidente Vargas 642/10
Caixa Postal 1639-2C-00
20079 Rio de Janeiro
Brazil

Cable address:

ELETROBRÁS
Rio de Janeiro

2122395 CELB or
2122034 CELB

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names 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 *1st Enrique Lerdau*
Acting Regional Vice President
Latin America and the Caribbean

CENTRAIS ELÉTRICAS DO SUL
DO BRASIL S.A. - ELETROSUL

By *1st Pelmo Thompson Flores*
Authorized Representative

By *1st Edilberto Costa*
Authorized Representative

CENTRAIS ELÉTRICAS BRASILEIRAS
S.A. - ELETROBRÁS

By *1st Pelmo Thompson Flores*
Authorized Representative

By _____
~~Authorized Representative~~

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Equipment and materials:		
(a) procured following international competitive bidding	92,700,000	100% of foreign expenditures and 100% of ex-factory price of domestically manufactured goods
(b) procured by direct purchases	1,000,000	100% of foreign expenditures
(c) procured through international shopping	1,200,000	100% of foreign expenditures and 100% of ex-factory price of domestically manufactured goods
(2) Consultants' services	900,000	100% of foreign expenditures
(3) Training	800,000	100% of foreign expenditures
(4) Equipment fabrication inspections	400,000	100% of foreign expenditures
(5) Unallocated	28,000,000	
Total	<hr/> 125,000,000 <hr/> <hr/>	

2. For the purposes of this Schedule the term "foreign expenditures" means expenditures in the currency of any country other than the Guarantor and for goods or services supplied from the territory of any country other than the Guarantor.

3. The disbursement percentages have been calculated in compliance with the policy of the Bank that no proceeds of the Loan shall be disbursed on account of payment for taxes levied by, or in the territory of, the Borrower on goods or services, or on the importation, manufacture, procurement or supply thereof; to that end, if the amount of any such taxes levied on or in respect of any item to be financed out of the proceeds of the Loan decreases or increases, the Bank may, by notice to the Borrower, increase or decrease the disbursement percentage then applicable to such item as required to be consistent with the aforementioned policy of the Bank.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

5. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, if the Bank has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Bank may, by notice to the Borrower: (i) reallocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Loan which are then allocated to another Category and which in the opinion of the Bank are not needed to meet other expenditures; and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

6. If the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditures for such item shall be financed out of the proceeds of the Loan and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by notice to the Borrower, cancel such amount of the Loan as, in the Bank's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The Project is part of the Borrower's program for the expansion of its high voltage transmission system during the years 1980 through 1984. It includes the high voltage transmission facilities which comprise the third stage expansion of its 500 kV system and related investments, as follows:

(a) Transmission Lines:

Construction of about 950 circuit-km of lines at 500 kV and about 90 circuit-km of tie lines at 230 kV;

(b) Substations:

Installation of about 1,600 MVA (525/230 kV) of additional transformer capacity in four new, and in the expansion of seven existing substations, and about 1,000 MVRA (525 kV) in reactors and other substation apparatus;

(c) Auxiliary Facilities:

Installation of carrier-wave communications equipment for Project lines and procurement of additional computer equipment for central office data processing; and

(d) System Planning and Equipment Fabrication Supervision

- (i) High voltage system planning and design and final designs of the Ilha Grande hydroelectric project by the provision of about 35 staff-months of consultants' services; and
- (ii) Equipment fabrication supervision by the provision of about 105 staff-months of on-the-job training outside Brazil and of high voltage system planning and operation by the provision of about 200 staff-months of on-the-job training outside Brazil.

* * *

The Project is expected to be completed by June 30, 1984.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each March 15 and September 15 beginning March 15, 1984 through March 15, 1995	5,210,000
On September 15, 1995	5,170,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions:

<u>Time of Prepayment</u>	<u>Premium</u>
Not more than three years before maturity	1.65%
More than three years but not more than six years before maturity	3.30%
More than six years but not more than eleven years before maturity	6.00%
More than eleven years but not more than thirteen years before maturity	7.15%
More than thirteen years before maturity	8.25%

SCHEDULE 4

Procurement

A. International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For goods to be procured on the basis of international competitive bidding, and in addition to the requirements of paragraph 1.2 of the Guidelines, the Borrower shall prepare and forward to the Bank as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender made by the Borrower or prequalification documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Bank shall reasonably request; the Bank will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the goods in question. The Borrower shall provide the necessary information to update such notice annually so long as any goods remain to be procured on the basis of international competitive bidding.

3. For the purpose of evaluation and comparison of bids for the supply of goods to be procured on the basis of international competitive bidding: (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or the ex-factory price for domestically manufactured goods; (ii) customs duties and other import taxes on imported goods, and sales and similar taxes on domestically supplied goods, shall be excluded; and (iii) the cost to the Borrower of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be included.

B. Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Schedule, goods manufactured in

Brazil may be granted a margin of preference in accordance with, and subject to, the following provisions:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which will be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

2. After evaluation, responsive bids will be classified in one of the following two groups:

(1) Group A: bids offering goods manufactured in Brazil if the bidder shall have established to the satisfaction of the Borrower and the Bank that such goods contain components manufactured in Brazil equal to at least 50% of the value of the complete goods.

(2) Group B: bids offering any other goods.

3. All evaluated bids in each group shall be first compared among themselves, excluding any customs duties and other import taxes (including merchant fleet renewal and port improvement taxes) on goods to be imported and any sales or similar taxes on goods to be supplied domestically, to determine the lowest evaluated bid of each group. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A is the lowest, it shall be selected for the award.

4. If, as a result of the comparison under paragraph 3 above, the lowest bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding: (i) to the evaluated bid price of the imported goods offered in each group B bid, for the purpose of this further comparison only, an amount equal to: (a) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (b) 15% of the c.i.f. bid price of such goods if said customs duties and taxes exceed 15% of such price; and (ii) to the evaluated bid price of the domestically supplied goods offered in each group B bid an amount equal to: (a) the amount of customs duties and other import taxes which would be levied on such goods if they originated from the same foreign country as the goods

involved in a group B bid which enjoy the lowest customs duties and other import taxes; or (b) 15% of the ex-factory price of such goods if said customs duties and taxes exceed 15% of such price. If the group A bid in such further comparison is the lowest, it shall be selected for the award; if not, the bid from group B which as a result of the comparison under paragraph 3 is the lowest evaluated bid shall be selected.

C. Other Procurement Procedures

1. Special metering and electrical laboratory equipment and selected computer data processing equipment may be procured through direct purchase, provided that, except as the Bank shall otherwise agree, the aggregate amount of items so procured does not exceed \$1,000,000 equivalent.

2. Carrier-wave and HV conductor hardware, coaxial cables and other similar items may be procured through international shopping, provided that, except as the Bank shall otherwise agree, the aggregate amount of items so procured does not exceed \$1,200,000 equivalent.

D. Review of Procurement Decisions by the Bank

1. Review of invitations to bid and of proposed awards and final contracts:

With respect to all contracts for materials and equipment estimated to cost the equivalent of \$100,000 or more:

(a) Before bids are invited, the Borrower shall furnish to the Bank, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received, and such other information as the Bank shall

reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked.

(d) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract.

2. With respect to each contract not governed by the preceding paragraph, the Borrower shall furnish to the Bank, promptly after its execution and prior to the delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

3. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting an extension of the stipulated time for performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than 15% of the original price, the Borrower shall inform the Bank of the proposed modification, waiver, extension or change order and the reasons therefor. The Bank, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

SCHEDULE 5

The Borrower's Investment Program (1980-1986)

1. Ongoing Works

- (a) Generation: (i) Installation of the last two generating units--175 MW, each--of the Salto Osorio hydro plant (1980)*
- (ii) Completion of the Jorge Lacerda coal-fired thermal plant--482 MW--(1980)*
- (iii) Completion of the Salto Santiago hydro plant--2,000 MW (1981)*
- (b) Transmission: (i) First stage of the 500 kV system (1980)*
- (ii) Santa Catarina lines, various at 69 kV and 138 kV (1980)*
- (iii) Interconnections at 230 kV (1980)*
- (iv) Second stage of the 500 kV system (1982)*
- (v) System expansions at 230 kV (1982)*

2. Future Works

- (a) Generation: (i) Improvements on the Charqueadas thermal plant (1981)*
- (ii) Conversion of the Alegrete oil-fired plant to coal (1982)*
- (iii) Construction of the Ilha Grande hydroelectric plant--2,400 MW--(1986)*
- (iv) Construction of the Machadinho hydroelectric plant--1,060 MW--(1988)*

* Year of expected completion of the work.

- (b) Transmission: (i) Third stage of the 500 kV system (1984)*
 - (ii) Fourth stage of the 500 kV system (1986)*
- (c) Other: (i) Various construction, transportation and office equipment and facilities
 - (ii) Studies
 - (iii) Telecommunications

* Year of expected completion of the work.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CERTIFICATE

I hereby certify that the foregoing is a true copy of the original in the archives of the International Bank for Reconstruction and Development.

In witness whereof I have signed this Certificate and affixed the Seal of the Bank thereunto this 6th day of Oct., 1980.

S. N. Ch...

FOR SECRETARY