

Public Disclosure Authorized

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LOAN NUMBER 1538 BR

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Guarantee Agreement

(South-Southeast Power Distribution Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 8, 1978

GUARANTEE AGREEMENT

AGREEMENT, dated May 8, 1978, between FEDERATIVE REPUBLIC OF BRAZIL (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by the Loan Agreement of even date herewith between the Bank and Centrais Elétricas Brasileiras S.A. (hereinafter called the Borrower) the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to one hundred thirty million dollars (\$130,000,000), on the terms and conditions set forth in the Loan Agreement, and in Project Agreements of even date herewith between the Bank and Centrais Elétricas de Minas Gerais, Centrais Elétricas de Santa Catarina S.A. and Espírito Santo Centrais Elétricas S.A, respectively, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

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

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 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 Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. Without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the

Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to any Project Company will be inadequate to meet the estimated expenditures required for the carrying out of its respective part of the Project, to make arrangements, satisfactory to the Bank, promptly to provide such Project Company or cause such Project Company to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Other Covenants

Section 3.01. (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, specific security from the member concerned but to ensure that no other external debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any lien shall be created on any public assets (as hereinafter defined), as security for any external debt, which will or might result in a priority for the benefit of the creditor of such external debt in the allocation, realization or distribution of foreign exchange, such lien shall, unless the Bank shall otherwise agree, ipso facto, and at no cost to the Bank, equally and ratably secure the principal of, and interest and other charges on, the Loan, and the Guarantor, in creating or permitting the creation of such lien, shall make express provision to that effect; provided, however, that, if for any constitutional or other legal reason such provision cannot be made with respect to any lien created on assets of any of its political or administrative subdivisions, the Guarantor shall promptly and at no cost to the Bank secure the principal of, and interest and other charges on, the Loan by an equivalent lien on other public assets satisfactory to the Bank.

(b) The foregoing undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) As used in this Section, the term "public assets" means assets of the Guarantor, of any political or administrative subdivision thereof and of any entity owned or controlled by, or operating for the account or benefit of, the Guarantor or any such subdivision, including gold and other foreign exchange assets held by any institution performing the functions of a central bank or exchange stabilization fund, or similar functions, for the Guarantor.

Section 3.02. (a) The Guarantor covenants that it will not take or cause or permit any of its political subdivisions or any of its agencies or any agency of any such political subdivisions to take, any action which would prevent or interfere with the performance by the Borrower of its obligations contained in the Loan Agreement or with the performance by the Project Companies of their respective obligations contained in the Project Agreements and will take or cause to be taken all reasonable action necessary or appropriate to enable the Borrower and the Project Companies to perform such obligations.

(b) Without limitation or restriction upon the provisions of paragraph (a) of this Section, the Guarantor shall: (i) cause the agency or agencies of the Guarantor responsible for the setting and adjustment of the Project Companies' rates for the sale of electricity and for transfers of funds from the Global Guarantee Fund to act in respect of any application of any of the Project Companies (1) for the setting and adjustment of such rates within a period of not more than 90 days after receipt of such application, and (2) for any such transfer of funds at such time as may be required to supplement the revenues of such Project Company, provided that such Project Company complies with the Guarantor's requirements therefor; and (ii) take, or cause to be taken, upon request all reasonable action required for the prompt issuance to the Project Companies of such import and other permits and licenses as shall be necessary for the acquisition and importation of goods and services required for the carrying out of the Project in accordance with the provisions of the Project Agreements.

Section 3.03. The Guarantor shall: (a) participate in the review of CEMIG's investment and financial plans as envisaged in Section 4.05 (c) of CEMIG's Project Agreement; and (b) use its best efforts, in accordance with its overall policies, to assist CEMIG in the carrying out of the plan of action referred to in said Section.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Ministro da Fazenda of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Ministério da Fazenda
Edifício Ministério da Fazenda
Esplanada dos Ministérios
7000 Brasilia D.F.
Brazil

Cable address:

MINIFAZ
Brasilia

Telex:

0611142 MFAZ BR

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)

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.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ João Baptista Pinheiro
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Adalbert Krieger
Regional Vice President
Latin America and the Caribbean