

A.I.D. Loan No. 512-L-051

2. Step  
See Supplement 12  
Loan folder 512-L-051

# Alliance for Progress

## Loan Agreement

(Foreign Assistance Act: Alliance for Progress Funds)

(Brazil — São Paulo Distribution)

Between

**SÃO PAULO LIGHT S.A. — SERVICOS DE ELETRICIDADE**

and the

**UNITED STATES OF AMERICA**

**Dated October 11, 1965**

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### PAYMENT AGREEMENT

Between the United States of Brazil  
and the United States of America

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### ESCROW AGREEMENT

Between the United States of America,  
the Morgan Guaranty Trust Company of New York  
and São Paulo Light S.A. — Serviços de Eletricidade

**A.I.D. Loan No. 512-L-051**

# **Alliance for Progress Loan Agreement**

**(Foreign Assistance Act: Alliance for Progress Funds)  
(Brazil — São Paulo Distribution)**

**Between**

**SÃO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE**

**and the**

**UNITED STATES OF AMERICA**

**Dated October 11, 1965**

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**ALLIANCE FOR PROGRESS  
LOAN AGREEMENT**

AGREEMENT, in furtherance of the Alliance for Progress, dated the 11th day of October, 1965, between SAO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE ("Borrower") and the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D."), with the concurrence of the Government of the United States of Brazil ("Government"), acting through the Coordinating Commission for the Alliance for Progress ("COCAP").

**ARTICLE I**

**The Loan**

SECTION 1.1. *The Loan.* A.I.D. hereby agrees to lend to Borrower, pursuant to the Foreign Assistance Act of 1961, as amended, up to \$15,000,000 to assist in financing the dollar and Brazilian currency costs of goods and services, including consulting engineering services, required for the project as defined in Section 1.2. As used in this Agreement, "Eligible Items" shall mean the goods and services financed under this Agreement, and "Principal" shall mean the aggregate amount disbursed under this Agreement.

SECTION 1.2. *The Project.* As used in this Agreement, "Project" shall mean a project for the investment of not less than \$60,000,000 (including the proceeds of this loan), in the expansion and improvement of Borrower's electrical generation, transmission and distribution system in the state of São Paulo, Brazil, as is more fully described in Annex A hereto.

SECTION 1.3. *Special Definitions.* As used in this Agreement:

(a) "Trust Indenture" shall mean the trust indenture, dated October 1, 1948, executed by Borrower under its then name of The São Paulo Tramway, Light and Power Company, Limited in favor of National Trust Company, Limited, as Trustee, as from time to time amended and supplemented;

(b) "Debentures" shall mean Series A Debentures as defined in the Trust Indenture;

**SECTION 1.3**

(c) "Unsubordinated Debentures" shall mean Unsubordinated Series A Debentures as defined in the Trust Indenture; and

(d) The term "dollars" and sign \$ mean dollars in such coin or currency of the United States of America as at the time referred to shall be legal tender for the payment of public and private debts in the United States of America.

**ARTICLE II**

**Interest and Terms of Repayment**

**SECTION 2.1. Interest.** Borrower shall pay semi-annually to A.I.D. in dollars (except as otherwise provided in Section 2.5), interest on unpaid Principal and on unpaid interest due which shall accrue from the dates of the respective disbursements hereunder, at the rate of five and one-half (5½%) per cent per annum (computed on the basis of a 365-day year). The first such payment shall be due and payable not later than six (6) months after the first disbursement, on a date to be specified by A.I.D.

**SECTION 2.2. Repayment.** Borrower shall repay the Principal to A.I.D. in dollars (except as otherwise provided in Section 2.5) over not more than eighteen (18) years in thirty-one (31) approximately equal semi-annual installments, the first installment to be due and payable two and one-half (2½) years after the date on which the first payment of interest is due.

**SECTION 2.3. Application of Payments.** All payments shall be applied first to the payment of any interest due and unpaid, and then to the repayment of Principal.

**SECTION 2.4. Prepayment.** Borrower shall have the right to prepay, without penalty, at any time, all or any part of the Principal. Any prepayment shall be applied in the order prescribed in Section 2.3, and amounts applied to the remaining installments of Principal shall, unless A.I.D. shall otherwise agree, be applied pro rata to such installments.

**SECTION 2.5. Currency and Recipient of Repayment.**

(a) Until A.I.D. shall give notice otherwise, Borrower shall discharge

First Disb.  
7-28-66

First Int.  
1-28-67

First Pmt  
7-28-69

31 | 15,000,000.00  
30c - 483,870.97  
1c - 483,870.90

4

**SECTION 3.1**

shall, except as A.I.D. may otherwise agree in writing, be subject to the prior receipt by A.I.D. of the following, in form and substance satisfactory to A.I.D.:

- (a) A certificate in duplicate substantially in the form of Exhibit No. 1 attached hereto (Certificate of Commissions and Fees).
- (b) A certificate in duplicate substantially in the form of Exhibit No. 2 attached hereto (Certificate of Authorized Representatives).
- (c) Certified copies of resolutions of the Board of Directors of Borrower authorizing the execution and delivery of this Agreement.
- (d) A legal opinion signed by counsel satisfactory to A.I.D.:
  - (i) that this Agreement has been duly authorized, executed, and delivered by Borrower in accordance with the laws of Brazil; all applicable requirements for the registration or recording of this Agreement have been complied with in such place or places within Brazil, and in such manner as are required by or within Brazil to protect and preserve the rights of A.I.D. hereunder; all applicable stamp or documentary taxes, duties, fees, or other charges levied by or within Brazil on this Agreement, the indebtedness evidenced thereby, or in connection with such Agreement's execution, delivery or registration, have been paid by Borrower; and this Agreement constitutes a valid and legally binding obligation of Borrower enforceable under the laws of Brazil, in accordance with its terms;
  - (ii) that the representations made by Borrower pursuant to Section 6.1 of this Agreement, are, as of the date of such opinion or opinions, accurate and true; except that, as to the matters referred to in subsections 6.1(d) through 6.1(j) the opinion may be only to the extent of counsel's information and belief;
  - (iii) as to such other matters incident to the transactions contemplated by this Agreement as A.I.D. may reasonably request.
- (e) Evidence of satisfactory arrangements with appropriate monetary authorities for the registration of this Agreement in accordance with the laws of Brazil.
- (f) Evidence that a payment agreement, substantially in the form of Exhibit No. 3 attached hereto, has been executed by Government guaranteeing repayment of the loan and payment of all interest and other payments re-

## SECTION 2.5

its obligations to make payments pursuant to this Article, and unless A.I.D. otherwise directs, to make payments pursuant to Section 7.2, by making all such payments in accordance with the terms of this Agreement to the Government in Brazilian currency, equivalent to, and at the same time as, the dollar payments which would otherwise be made ("Special Payment Procedure"). A.I.D. may from time to time specify the exchange rate at which the equivalents in dollars of such payments of Brazilian currency are to be calculated, provided, however, that Borrower shall in no case be required to pay more units of Brazilian currency per dollar to the Government than it would have been required to pay, under the laws and regulations in force at the time, to obtain dollars for payments directly to A.I.D. pursuant to this Agreement.

(b) Use of the Special Payment Procedure pursuant to subsection 2.5(a) shall not terminate those payment obligations of Borrower to A.I.D. under this Agreement not discharged in accordance with the terms of subsection 2.5(a) hereof, or any other rights of A.I.D. under this Agreement.

## SECTION 2.6. *Place of Payment.*

(a) All payments to be made to A.I.D. shall be made to the Controller, Agency for International Development Mission to Brazil, Embassy of the United States of America, Rio de Janeiro, Brazil, or at such other place as A.I.D. may specify. Such payments shall be deemed to have been made when received by A.I.D.

(b) All payments to be made to Government shall be made at such place in Brazil as A.I.D. -----

## ARTICLE III

### Conditions Precedent

SECTION 3.1. *Conditions Precedent to First Disbursement.* The obligation of A.I.D. to make the first disbursement or issuance of a commitment document

SECTION 3.1

quired pursuant to this Agreement, and that said agreement is in effect in accordance with its terms ("Payment Agreement").

(g) Evidence of contractual or other arrangements satisfactory to A.I.D. for consulting engineering services for the Project. Such services shall be performed by a firm or firms satisfactory to A.I.D., and shall be procured in accordance with procedures to be specified by A.I.D.

(h) A letter substantially in the form of Exhibit No. 4 attached hereto from Government to A.I.D.

(i) (i) Evidence that an agreement substantially in the form of Exhibit No. 5 attached hereto has been executed by Borrower, A.I.D. and a bank satisfactory to A.I.D. ("Escrow Bank") providing for a deposit in an account ("Escrow Account") of Unsubordinated Debentures to secure the repayment of Principal and interest and all other sums due under this Agreement and for the cancellation of said Debentures upon removal from the Escrow Account ("Escrow Agreement");

(ii) Evidence that Borrower has deposited in the Escrow Account Unsubordinated Debentures in an aggregate principal amount of \$18,000,000 or such lesser amount as A.I.D. shall agree; and

(iii) A legal opinion or opinions by counsel satisfactory to A.I.D. that:

(A) The Escrow Agreement has been duly authorized and executed by Borrower and Escrow Bank, and constitutes a valid and binding obligation of Borrower and Escrow Bank in accordance with its terms; and

(B) the Unsubordinated Debentures deposited in the Escrow Account have been duly authorized and executed by Borrower, and applicable requirements for the registration or recording of said Debentures have been complied with in such place or places within Brazil, and in such manner as are required by or within Brazil to establish a valid charge on Borrower's assets in accordance with the provisions of the Trust Indenture, and said Debentures have been authenticated by the Trustee under the Trust Indenture, and constitute valid and binding obligations of Borrower in accordance with their terms and valid and binding security for the repayment of Principal and interest and all other sums due under this Agreement in accordance with their terms and the terms of the Escrow Agreement.

### SECTION 3.1

(j) (i) Evidence that a subordination agreement in form and substance satisfactory to A.I.D. has been executed by Brazilian Traction, Light and Power Company, Limited ("Brazilian Traction") and A.I.D. pursuant to which Brazilian Traction agrees that payments by Borrower to Brazilian Traction shall be subordinated as therein provided to payments under this Agreement, and agrees to certain limitations on its exercise of voting rights accruing to holders of Debentures under Article 13 of the Trust Indenture ("Subordination Agreement"); and

(ii) A legal opinion by counsel satisfactory to A.I.D. that the Subordination Agreement has been duly authorized or ratified by and executed on behalf of Brazilian Traction, and constitutes a valid and legally binding obligation of Brazilian Traction in accordance with its terms.

(k) A certificate from National Trust Company, Limited, as Trustee under the Trust Indenture, that it has no notice of the existence of any event of default under the Trust Indenture.

**SECTION 3.2. *Additional Conditions Precedent with Respect to Financing Other Than Engineering Services.*** Prior to any disbursement or the issuance of commitment documents for other than engineering services, Borrower shall furnish A.I.D. in form and substance satisfactory to A.I.D.:

(a) A plan and schedule for the construction, installation and procurement necessary to complete the Project.

(b) Such of the following additional items as A.I.D. shall specify

1. Additional plans and specifications for the Project;
2. Evidence that arrangements satisfactory to A.I.D. have been made for the necessary procurement; and
3. Evidence that arrangements satisfactory to A.I.D. have been made for construction services.

**SECTION 3.3. *Terminal Date for Fulfillment of Conditions Precedent.*** Except as A.I.D. may otherwise agree in writing, if the conditions required by Section 3.1, and if all of the other conditions required by Section 3.2(a) or specified by A.I.D. pursuant to Section 3.2(b), have not been satisfied by January 31, 1966, A.I.D. may at any time thereafter terminate this Agreement by giving notice to Borrower.

### SECTION 3.3

Upon such termination, Borrower shall repay the unrepaid Principal and any accrued interest whereupon all other obligations of Borrower and A.I.D. under this Agreement shall cease.

## ARTICLE IV

### Disbursements

SECTION 4.1. *Disbursements for Dollar Costs.* To obtain disbursements for dollar costs of the Project, Borrower may from time to time, and in accordance with dollar requirements for the Project, request A.I.D. to issue commitment documents to one or more United States banks designated by Borrower or its designee and satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made, through letters of credit or otherwise, to Borrower or any designee of Borrower pursuant to such documentation requirements as A.I.D. may prescribe. Banking charges incurred pursuant to this Section in connection with commitment documents shall be for the account of Borrower and may be financed hereunder.

SECTION 4.2. *Disbursements for Brazilian Currency Costs.* To obtain disbursements hereunder for Brazilian currency costs of the Project, Borrower may from time to time, and in accordance with local currency requirements and expenditures for the Project, request A.I.D. to make available an amount of cruzeiros for the Project. Each such request shall be supported by such documentation as A.I.D. may require. The provisions of the Special Letter of Credit Implementation Agreement, dated July 16, 1965, between A.I.D., the Banco Central da Republica do Brasil, and the Banco do Brasil S.A., shall apply to Special Letters of Credit utilized to make cruzeiros available for the purpose of this loan. Cruzeiro disbursements hereunder shall be charged against the loan at the rate at which A.I.D. acquired the cruzeiros pursuant to the respective Special Letter of Credit or amendment thereto.

SECTION 4.3. *Other Forms of Disbursement.* Disbursements may also be made through such other means as Borrower and A.I.D. may agree to in writing.

SECTION 4.4. *Denomination and Time of Disbursements.* Disbursements hereunder shall be denominated in dollars and shall be deemed to occur (a) in the case of dollar costs, on the respective dates on which payments by A.I.D. are

#### SECTION 4.4

made to a banking institution pursuant to a commitment document referred to in Section 4.1, or (b) in the case of local currency costs, on the respective dates on which Borrower or its designee receives cruzeiros pursuant to Section 4.2.

SECTION 4.5. *Terminal Date for Requests for Commitment Documents and Disbursements.* Except as A.I.D. may otherwise agree in writing, no commitment documents shall be issued in response to requests received after June 30, 1968, and no disbursement shall be made against documentation submitted after June 30, 1969.

### ARTICLE V

#### Covenants Concerning Procurement

SECTION 5.1. *Source of Procurement.* All Eligible Items financed under this Agreement (except shipping and marine insurance) shall have their source and origin in the United States of America or in Brazil. Shipping and marine insurance financed under this Agreement shall have their source and origin in the United States of America. Transportation services procured from a United States-flag carrier shall be deemed to have their source and origin in the United States. Marine insurance issued in the United States by a company authorized to do a marine insurance business in any state of the United States of America shall be deemed to have its source and origin in the United States. All other goods and services used in the Project but not financed hereunder shall have their source and origin in countries included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time such goods and services are procured.

SECTION 5.2. *Method of Procurement.* No more than reasonable prices shall be paid for any Eligible Item, and all such items (except professional services) shall be procured on a fair and competitive basis. Except with respect to the foregoing professional services, prices should normally approximate the lowest competitive price for the Eligible Item procured, operating costs, quality, time and cost of delivery, terms of payment, and other factors considered. Prices for Eligible Items which are procured in bulk within the United States shall not exceed the market prices prevailing in the United States at the time of purchase. Eligible Items shall be procured in accordance with such procedures as A.I.D. may specify.

SECTION 5.3. *Eligibility Date.* No Eligible Items may be financed in whole

**SECTION 5.3**

or in part by the loan which arise out of orders firmly placed or entered into, or services performed, prior to June 23, 1965.

**SECTION 5.4. *Transportation.***

(a) At least fifty (50) per cent of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by the loan, which may be transported on ocean vessels, shall be transported on privately-owned United States-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for United States-flag commercial vessels. Determinations that United States-flag commercial vessels are not so available must be approved by A.I.D.

(b) All Eligible Items transported to Brazil on vessels other than privately-owned United States-flag commercial vessels shall be transported on carriers owned, operated or under the control of countries included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time such transportation is procured; provided, however, that no Eligible Item may be transported on any ocean vessel which A.I.D. in a notice to Borrower has designated as ineligible to carry A.I.D.-financed commodities.

**SECTION 5.5. *Marine Insurance.*** If in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, the Government of Brazil, by statute, decree, rule or regulation, favors any marine insurance company of any country over any marine insurance company authorized to do business in any state of the United States of America, shipments of Eligible Items shall during the continuance of such discrimination be insured against marine risk and such insurance shall be placed in the United States of America with a company or companies authorized to do a marine insurance business in any state of the United States of America.

**SECTION 5.6. *Small Business Notification.*** In order that American small business shall have the opportunity to participate in furnishing Eligible Items to be procured in the United States, Borrower shall, at such time as A.I.D. may specify, prior to ordering or contracting for any such Eligible Item other than professional services estimated to cost more than the equivalent of \$5,000, cause to be received by A.I.D. such information concerning Eligible Items as A.I.D. may require.

**SECTION 5.7. *Contracts.*** No Eligible Item may be financed in whole or in part by the loan which arises out of any contract:

**SECTION 5.7**

(a) for engineering construction, procurement or other services unless said services have been procured in accordance with procedures specified by A.I.D., and A.I.D. has approved in writing the terms of the contract and the firm to provide the services;

(b) for the performance of services outside the United States by United States citizens (and such other persons as A.I.D. may specify) unless A.I.D. has approved in writing the employment of such persons; and

(c) for construction services if such contract does not conform with A.I.D. regulations with respect to eligible direct labor.

**SECTION 5.8. Taxes.** Except as otherwise expressly provided herein or otherwise approved in writing by A.I.D., no taxes, charges, fees, tariffs, duties, deposit requirements, or similar payments of any kind shall be eligible for financing under this Agreement.

**SECTION 5.9. Land Rights.** The costs of real property rights, including easements and rights of way, required for the completion of the Project shall not be eligible for financing under this Agreement.

**ARTICLE VI**

**Additional Covenants and Warranties**

**SECTION 6.1. General Representations and Warranties.** Borrower represents and warrants that as of the date of this Agreement, except as heretofore disclosed to A.I.D. in writing:

(a) Borrower is a duly existing corporation under the laws and decrees of Brazil with full authority to carry on its present business, to undertake the Project, and to enter into this Agreement.

(b) Borrower has taken all corporate and legal action and obtained all authorizations, consents or approvals of any governmental body or regulatory authority required in connection with the making of this Agreement.

(c) Borrower has furnished A.I.D. with a true copy of its present Articles of Incorporation or Charter and Articles of Association or By-Laws.

**SECTION 6.1**

(d) Borrower is not in violation of, and the execution and delivery of this Agreement, the compliance with all of its terms and the carrying out of the other transactions contemplated hereby do not and will not conflict with or result in any violation of any provisions of any present agreement, franchise, concession, license, permit, decree, order, statute, ordinance, governmental rule or regulation applicable to Borrower.

(e) There is no action or proceeding pending or threatened (or to the best of Borrower's knowledge, any basis therefor) which might result in any material adverse change in the business prospects or conditions (financial or other) of Borrower, or which questions the validity of this Agreement or any action taken or to be taken pursuant to or in connection herewith, or in carrying out the Project. No notice has been given by any governmental authority of any proceeding to condemn, purchase, or otherwise acquire Borrower, the Project, or any part of or interest in either and, so far as Borrower knows, no such proceeding is contemplated.

(f) Borrower's assets are not subject to any lien other than the Trust Indenture and the Prior Lien Indenture referred to therein, and Borrower has no subsidiaries. For the purpose of this subsection, the term "lien" shall include mortgages, pledges, charges, privileges and priorities of any kind, and the term "assets" shall include revenue and property of any kind.

(g) Borrower has filed all its tax returns which to the knowledge of Borrower are required to be filed, and has paid all taxes, assessments, duties, and other governmental charges except those not yet delinquent or those being contested in good faith.

(h) Borrower has heretofore disclosed in writing to A.I.D. all agreements material to the Project or this Agreement and all other circumstances which may materially affect the Project or the discharge of Borrower's obligations under the Agreement.

(i) Borrower has furnished A.I.D. with its latest balance sheet and its latest statement of profit and loss and surplus, both such reports being dated as of December 31, 1964; such reports fairly present the financial position of Borrower as at such date and have been prepared in conformity with generally accepted accounting principles and practices.

(j) Since December 31, 1964, there has been no change in the financial condition of Borrower from that set forth in the balance sheet dated as of

**SECTION 6.1**

December 31, 1964 or in its business prospects except (i) changes contemplated by this Agreement, (ii) changes in the ordinary course of business which have not been either individually or in the aggregate materially adverse, or (iii) changes heretofore disclosed to A.I.D. in writing.

(k) Borrower has valid title to all real property, licenses or rights necessary for the Project or the conduct of its business.

**SECTION 6.2. *Execution, Completion and Operation of Project.*** Borrower shall:

(a) Make available or arrange to make available for the Project funds required by the financing plan mutually agreed to by Borrower and A.I.D.

(b) Carry out and complete the Project, with due diligence and efficiency, providing any additional resources, financial or otherwise, which may be required. The Project shall be carried out in conformity with sound engineering, construction and financial practices and with any contracts, engineering, construction or procurement arrangements, or plans, schedules and specifications approved by A.I.D. Borrower shall obtain A.I.D. concurrence prior to any material modification or cancellation of any such contracts, arrangements, plans, schedules, or specifications.

(c) Adequately maintain and repair, in accordance with sound maintenance practices, all Eligible Items and any construction or facility resulting from their use.

**SECTION 6.3. *Particular Covenants.*** Until payment in full of all sums due under this Agreement, Borrower, except as A.I.D. may otherwise agree in writing:

(a) Shall pay or cause to be paid all taxes, fees, or other charges, if any, imposed under the laws of Brazil or laws in effect in its territory on or in connection with the execution, delivery or registration of this Agreement or the repayment of Principal or payment of interest hereunder. Such taxes and fees shall not be paid out of the proceeds of the loan.

(b) Shall insure or cause to be insured the equipment and materials financed under this Agreement against risks incident to their purchase and transit to the point of their use in the Project.

(c) Shall keep its properties and business insured with financially sound and reputable insurance companies against loss or damage in such manner

SECTION 6.3

and to the same extent as shall be in accordance with good commercial practice with regard to property and business of like character in comparable circumstances.

(d) Shall maintain its existence and right to carry on operations and take all steps necessary to maintain and renew all rights, powers, privileges, concessions and franchises which are necessary or materially useful in the conduct of its business.

(e) Shall conduct any transactions with its directors, officers, stockholders, affiliates and employees in accordance with good commercial practice, and fully disclose and promptly report to A.I.D. any such transactions not entered into in the ordinary course of business. All compensation to directors, officers and executive employees shall be reasonable.

(f) Shall promptly inform A.I.D. of any conditions which interfere with, or threaten to interfere with, the payment of Principal or interest or the carrying out of the Project.

(g) Shall not substantially change the nature of its business.

(h) Shall not sell, transfer, lease or otherwise dispose of all or a substantial part of its capital assets, or undertake any merger or consolidation.

(i) Shall not cause or permit any Prior Lien Bonds (as defined in the Trust Indenture) to be issued or outstanding other than Prior Lien Bonds issued or outstanding on the date of this Agreement.

(j) Shall not incur any funded debt if after the incurrence thereof the total unsubordinated debt of Borrower, including the funded debt proposed to be incurred, exceeds fifty per cent (50%) of the net depreciated book value of electric and telephone property of Borrower. For the purposes of this subsection (j):

(i) "funded debt" shall be deemed to be incurred on the date such debt becomes outstanding and repayable in accordance with the loan contract or agreement providing therefor;

(ii) "funded debt", "unsubordinated debt" and "net depreciated book value of electric and telephone property of Borrower" shall be defined in accordance with the Trust Indenture.

(k) Shall not, after January 1, 1965, make any loans or other advances to Brazilian Traction, or to any other company substantially beneficially

**SECTION 6.3**

owned (i) by Brazilian Traction ("Other Subsidiaries") or (ii) by Other Subsidiaries, in an aggregate principal amount exceeding \$3,000,000 at any one time outstanding.

**SECTION 6.4. *Information and Marketing.*** Appropriate arrangements satisfactory to A.I.D. shall be made by Borrower to publicize the Project as United States aid in furtherance of the Alliance for Progress. Such publicity shall include, but shall not be limited to, prominent display of the Alliance for Progress symbol and the "Hand Clasp" symbol at the Project sites.

**SECTION 6.5. *Maintenance of Records; Reports.***

(a) Borrower shall maintain or cause to be maintained books and records adequate to identify the items financed by the loan, to disclose their cost and their use, to show the nature and extent of the solicitation of prospective suppliers and the basis for the award of contracts or orders, and to indicate the progress of the Project. Borrower shall also maintain or cause to be maintained books and records in accordance with sound accounting principles and practices, except as otherwise disclosed pursuant to subsection 6.5(d), showing its financial condition and profits and losses as well as any changes in capital structure, which shall be audited regularly, at such intervals as A.I.D. may specify, by independent auditors acceptable to A.I.D. Borrower shall authorize such auditors to prepare audit reports in a form satisfactory to A.I.D. and to answer directly any reasonable request for information about Borrower's accounts. Such books and records shall be maintained and audited for such period as A.I.D. may require.

(b) A.I.D. shall have the right at all reasonable times to examine such books and records and all other documents, correspondence, memoranda, and other records relating to this Agreement. Borrower shall cooperate with, and give reasonable assistance to, and shall facilitate inspection by A.I.D. of operations and the utilization of funds under this Agreement, and shall afford all reasonable opportunity for authorized representatives of A.I.D. to visit any property or construction site of Borrower or suppliers' premises for purposes related to this Agreement.

(c) Borrower shall promptly furnish to A.I.D. such financial and other reports and information relating to the loan or transactions pursuant thereto and any covenants of this Agreement as A.I.D. may request.

(d) Within one hundred and twenty (120) days after the end of each of its fiscal years, Borrower shall furnish A.I.D. with:

## SECTION 6.5

(i) An annual financial report prepared in cruzeiros and dollars including a detailed Balance Sheet, related Profit and Loss Statement, and Statement of Retained Earnings of Borrower as of the close of the fiscal year then ended. The financial statements shall be prepared in accordance with generally accepted accounting principles and practices (except as otherwise disclosed in writing to A.I.D.) and reported on in a manner satisfactory to A.I.D.; and

(ii) A certification that no Event of Default exists under subsections (d), (e), (g), (h), (i) or (j) of Section 7.1.

Borrower shall also furnish A.I.D. with such other information respecting the financial or other condition and affairs of Borrower as A.I.D. may reasonably request, including periodic progress and shipping reports and a completion report of the Project.

(e) In order to evidence its investment in the Project, Borrower shall from time to time submit to A.I.D. certificates of investment in the form set forth in Exhibit 6 hereof ("Certificates of Investment"). The cumulative amount of investment made by Borrower after December 31, 1964, certified in accordance with this subsection by submission of Certificates of Investment to A.I.D. and not explicitly rejected by A.I.D., may be referred to as "Certified Investment".

**SECTION 6.6. *General Limitation on Dividends and Other Payments.*** Borrower shall not at any time pay any cash dividend on or authorize or make any other distribution on account of any shares of any class of stock of Borrower whether now or hereafter outstanding, or make any payment on account of the purchase, acquisition, redemption or other retirement of any shares of such stock (i) except out of the earned surplus of Borrower, determined in a manner acceptable to A.I.D., or (ii) when any sums are due and payable under Articles II and/or VII of this Agreement.

**SECTION 6.7. *Power Supply Arrangements — Review.*** Borrower covenants that it will use its best efforts to secure firm long-term arrangements to purchase power for resale through its distribution system. Borrower agrees to review with A.I.D. at least annually its progress in establishing such arrangements.

## ARTICLE VII

### Remedies of A.I.D.

**SECTION 7.1. *Events of Default.*** The occurrence of any of the following

**SECTION 7.1**

events shall be deemed to be an Event of Default entitling A.I.D. at its option to suspend disbursements:

- (a) A.I.D. determines that the Project has been unreasonably delayed;
- (b) An extraordinary situation exists which, in A.I.D.'s judgment, jeopardizes the purpose of this Agreement or makes it improbable that Borrower will be able to perform its obligations hereunder;
- (c) Borrower shall fail to pay in full when due any installments of Principal or interest hereunder;
- (d) Borrower shall fail to comply with any other provision contained herein, or with any provision contained in the Trust Indenture or the Escrow Agreement;
- (e) Brazilian Traction shall fail to comply with any provision contained in the Subordination Agreement;
- (f) Government shall fail to comply with any provision contained in Article IV of the Payment Agreement;
- (g) Any representation or warranty made by Borrower or Brazilian Traction in this Agreement or in any documents submitted by or to be submitted by or on behalf of Borrower or Brazilian Traction under this Agreement, the Escrow Agreement or the Subordination Agreement shall prove to be incorrect in any material respect;
- (h) All or any substantial part of Borrower's assets (whether now or hereafter existing), business or operations shall be condemned, seized, or expropriated, or any action by any governmental authority shall be instituted to dissolve or disestablish Borrower or to suspend its operation, or a substantial part thereof;
- (i) Any franchise, concession, license, permit, right, privilege, charter, or other authority granted pursuant to or existing by virtue of law necessary for the conduct of Borrower's business in connection with the completion of the Project or for the carrying out of the terms of this Agreement, is revoked, cancelled, or denied in such manner as to make it improbable, in the reasonable judgment of A.I.D., that Borrower will be able to perform its obligations under this Agreement, including the completion of the Project;

**SECTION 7.1**

(j) Borrower has voluntarily or involuntarily entered into any procedure under the laws of any jurisdiction for the relief of financially distressed debtors.

**SECTION 7.2. Acceleration.** Upon the occurrence of any of the Events of Default referred to in subsections (a), (c), (d), (e), (f), (g), (h), (i), or (j) of Section 7.1, A.I.D. may declare all or any part of the unpaid Principal and interest accrued thereon as due and payable immediately; provided that A.I.D. shall not exercise its option under this Section if the default is cured within sixty (60) days after A.I.D. gives notice of its intention to exercise its option under this Section.

**SECTION 7.3. Refunds.** If A.I.D. determines that any disbursement is not supported by valid documentation in accordance with the terms of this Agreement, or is not made or used in accordance with the terms of this Agreement, or is in violation of the law governing A.I.D. (including A.I.D. regulations applicable to Borrower's operations), A.I.D. at its option, may, notwithstanding the availability of any other remedy provided for in Sections 7.1 and 7.2, require Borrower to pay A.I.D., within sixty (60) days after receipt of a request therefor, an amount not to exceed the amount of such disbursement; provided, however, that such request by A.I.D. shall be made not later than five (5) years after the date of the final disbursement hereunder. Any such refund received by A.I.D. shall be applied as provided in Section 2.3, and amounts applied to the remaining installments of Principal shall be applied in inverse order of their maturity.

**ARTICLE VIII**

**Miscellaneous**

**SECTION 8.1. Use of Representatives.** All actions to be performed or taken by Borrower or A.I.D. under this Agreement may be performed by their respective duly authorized representatives. Representatives of Borrower shall be designated by delivery to A.I.D. of a certificate in the form of Exhibit No. 2 attached hereto, in accordance with Section 3.1(b). Until receipt by A.I.D. of written notice of revocation of any designation made pursuant to such certificate, A.I.D. may accept the signature of such designee on any instrument as conclusive evidence that any action effected by such instrument is authorized by Borrower.

**SECTION 8.2. Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the successors and assigns of A.I.D. and of Borrower.

**SECTION 8.3.**

**SECTION 8.3. *Applicable Law.*** This Agreement shall be deemed to be a contract made under, and shall be governed by and construed in accordance with, the laws of the District of Columbia, United States of America.

**SECTION 8.4. *Notice.*** Any notice, request, or communication given, made or sent by Borrower or A.I.D. pursuant to this Agreement shall be in writing and shall be deemed to have been duly given, made or sent to the party to which it is addressed when it shall be delivered by hand or by mail, telegram, cable or radiogram, to such other party at the following addresses:

**To Borrower:**

**Mail Address:**

São Paulo Light S.A. — Serviços de Eletricidade  
Rua Xavier de Toledo, 23  
São Paulo, São Paulo  
Brazil.

**Cable Address:**

**SPLIGHT**  
São Paulo.

**To A.I.D.:**

**Mail Address:**

Office of Capital Development  
Agency for International Development  
Embaixada dos Estados Unidos da América  
Rio de Janeiro, Brazil.

**Cable Address:**

**USAID**  
Amembassy  
Rio de Janeiro.

Other addresses may be substituted for the above upon the giving of notice of such substitution.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed at Washington, D.C., United States of America, as of the date first mentioned above.

SÃO PAULO LIGHT S.A. —  
SERVIÇOS DE ELETRICIDADE

UNITED STATES OF AMERICA

By: (Signed) ANTONIO GALLOTTI  
*President*

By: (Signed) DAVID BRONHEIM  
*Deputy U.S. Coordinator*

(Signed) J. G. GLASSCO  
*Attorney*

(Signed) L. A. ALLEN  
*Attorney*

Concurrence:

GOVERNMENT OF THE UNITED STATES OF BRAZIL

By: (Signed) FRANCISCO DE ASSIS GRIECO

(Signed) JORGE DE CARVALHO E SILVA  
*Authorized Representatives*

**PROJECT — SÃO PAULO LIGHT**

The project consists of the construction of transmission and distribution facilities for system improvements and extensions to the São Paulo Light Company's system. It is composed of over 100 sub-projects on a time phased schedule. Their major features are:—

(1) **Generating and Pumping Plants:** Complete an additional tunnel or reinforce one existing tunnel at the Henry Borden plant and procure replacement parts, spare runners and windings.

(2) **Transmission:** Construct and rebuild approximately 46 km of single and double circuit 230 kV, 240 km of three, two and one circuit 88 kV, 10 km of single circuit 40 kV and 45 km of 33 kV overhead lines. In addition, approximately 8 circuit km of 88 kV underground cables are to be installed.

(3) **Substations:** Add approximately 800 MVA of 230-88 kV and approximately 410 MVA of distribution substation capacity. Also include approximately 330 MVAR of capacitor banks.

(4) **Distribution:** Add lines and transformers for approximately 350 MVA of load increase.

(5) **General Plant:** Work equipment, meters, personnel training and special studies.

**CERTIFICATE OF COMMISSIONS AND FEES**

Re: Loan No. 512-L-.....

SÃO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE ("Borrower") hereby represents, warrants and covenants to the Agency for International Development ("A.I.D.") that it has not paid, agreed to pay or caused to be paid to any person or other entity (except Borrower's regular fulltime directors, officers, and employees to the extent of their regular remuneration) any commission, fee or other payment in connection with the establishment or operation of the loan established under the Loan Agreement between Borrower and A.I.D., dated October , 1965, except as stated below for bona fide professional, technical or other comparable services incident to presenting the merits of Borrower's application or to the operation of this Agreement (if none, please so state):

<i>Payee or Intended Payee</i>	<i>Address</i>	<i>Nature of Services</i>	<i>Amount</i>
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There is attached hereto a statement of each of the above named payees and intended payees verifying the amount stated opposite his name, together with his agreement to accept such reduction therein as may be necessary to make such amount satisfactory to A.I.D.

In the event the amount of such commission, fee or other payment is deemed unreasonable by A.I.D., Borrower shall cause a reduction satisfactory to A.I.D. to be made therein.

SÃO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE

By: .....

Title: .....

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**CERTIFICATE OF AUTHORIZED REPRESENTATIVES**

Re: Loan No. 512-L-.....

SÃO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE ("Borrower") hereby represents and warrants to the Agency for International Development ("A.I.D.") that due authority is vested in the following persons to act on its behalf in the capacities specified in connection with the execution and operation of the Loan Agreement, dated October , 1965, between Borrower and A.I.D., establishing a loan in Borrower's favor in the amount of U.S. \$15,000,000, to sign the Loan Agreement, to make representations by signing certificates, to make request for disbursements and to sign any other document that may be required by

*Name*

*Title*

*Signatures*

It is also represented and warranted that the above signatures are the authentic signatures of the respective persons.

SÃO PAULO LIGHT S.A. — SERVIÇOS DE  
ELETRICIDADE

By: .....

Title: .....

Date: .....

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**PAYMENT AGREEMENT**

Between the

**UNITED STATES OF BRAZIL**

and the

**UNITED STATES OF AMERICA**

---

*A copy as executed on October 11, 1965  
appears later in this compilation.*

**DRAFT LETTER FROM GOVERNMENT TO A.I.D.**

This letter is to inform you that (1) the Government of the United States of Brazil intends to maintain a rate structure which will enable the Rio and São Paulo Light Companies to generate sufficient funds from internal sources to carry out their investment in the Projects contemplated in the Loan Agreements entered into by the companies and A.I.D., dated . . . . ., 1965, service the indebtedness, realize a reasonable return on their investment, and continue to generate funds internally for future expansion; and (2) Government recognizes the importance of converting the frequency of the Rio de Janeiro distribution system from 50 cps. to 60 cps., and agrees to consult from time to time with A.I.D. regarding the progress of said conversion.

**ESCROW AGREEMENT**

Between the

**UNITED STATES OF AMERICA**

the

[Escrow Bank]

and the

**SÃO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE**

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*A copy as executed on December 14, 1965  
appears later in this compilation.*

**CERTIFICATE OF INVESTMENT**

Date: .....

(1) Pursuant to Section 6.5(e) of the Loan Agreement between São Paulo Light S.A. — Serviços de Eletricidade ("Borrower") and the United States of America, dated October , 1965 ("Loan Agreement"), Borrower hereby certifies that it has, in the period from ..... to ....., invested from its own resources \$ ..... or its equivalent in the currency of Brazil in the Project as defined in Section 1.2 of the Loan Agreement. Such investments do not include "contributions in aid of construction" or any other consumer-financed addition to plant.

(2) Said investment has been made in accordance with plans and specifications approved by the Agency for International Development ("A.I.D.").

(3) For purposes of this Certificate, "investment" means the entering into an irrevocable contract or commitment to pay cash, or payment of cash other than under such contract or commitment, for the purchase of goods and services necessary for the Project, to the extent that the costs of such goods and services are or will be considered capital assets on the books of Borrower.

(4) In computing the dollar equivalent of expenditures, commitments and payments in the currency of Brazil for purposes of this Certificate, Borrower has converted Cruzeiro items at the rates of exchange prevailing when the transactions giving rise to such items occurred.

(5) The cumulative total of Certificates of Investment submitted to A.I.D. pursuant to Section 6.5(e) of the Loan Agreement, prior to this Certificate and not specifically rejected by A.I.D., equals \$ .....

**SÃO PAULO LIGHT S.A. — SERVIÇOS DE  
ELETRICIDADE**

By: .....

Title: .....

Approval:

.....  
**Accountant**

.....  
**Consulting Engineer**

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# **Alliance for Progress**

## **PAYMENT AGREEMENT**

**Between the**

**UNITED STATES OF BRAZIL**

**and the**

**UNITED STATES OF AMERICA**

**In Connection With A.I.D. Loan No. 512-L-051  
(São Paulo Distribution)**

**Dated October 11, 1965**

**ALLIANCE FOR PROGRESS  
PAYMENT AGREEMENT**

PAYMENT AGREEMENT, in furtherance of the Alliance for Progress, dated the 11th day of October, 1965, between the GOVERNMENT OF THE UNITED STATES OF BRAZIL ("Government") and the GOVERNMENT OF THE UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D.").

**ARTICLE I**

**Definitions and Terms to Government**

SECTION 1.1. *The Loan Agreement.* The Loan Agreement, numbered A.I.D. Loan No. 512-L-051, between São Paulo Light S.A. — Serviços de Eletricidade ("Borrower") and A.I.D., dated October 11, 1965, establishing a loan to the Borrower with a total Principal of not to exceed \$15,000,000 (fifteen million United States dollars) is herein called the "Loan Agreement", and the loan established thereby is herein called the "Loan".

SECTION 1.2. *Principal.* As used in this Payment Agreement, "Principal" shall mean the aggregate amount of dollars disbursed under the Loan Agreement.

SECTION 1.3. *Transferred Principal.* As used in this Payment Agreement, "Transferred Principal" means Principal paid by Borrower to Government pursuant to Section 2.5 of the Loan Agreement and Section 2.1 of this Agreement.

SECTION 1.4. *Outstanding Transferred Principal.* As used in this Payment Agreement, "Outstanding Transferred Principal" means Transferred Principal not repaid to A.I.D. by Government.

SECTION 1.5. *Government Interest Rate.* As used in this Payment Agreement, "Government Interest Rate" means interest at one (1) per cent per annum for ten (10) years following the first disbursement under the Loan Agreement, and two and one-half (2½) per cent per annum thereafter.

SECTION 1.6. *Government Amortization Terms.* As used in this Payment Agreement, "Government Amortization Terms" means amortization over not more than forty (40) years, in sixty-one (61) semi-annual installments, the first of which shall be due and payable not later than ten (10) years after the first disbursement under the Loan Agreement, on a date to be specified by A.I.D. The amount of each installment shall be determined by dividing the total amount of the Government's obligation to repay outstanding Principal to A.I.D. immediately before paying that installment by the number of installments remaining to be paid at that time.

**SECTION 2.1**

**ARTICLE II**

**Special Procedure for Borrower's  
Payments to Government**

**SECTION 2.1. *Receipt of Borrower's Payments.*** Pursuant to Section 2.5 of the Loan Agreement, Government and A.I.D. hereby agree that Government shall receive from Borrower payments in Brazilian currency ("Cruzeiros") in discharge of Borrower's obligations to make payment in United States dollars under the Loan Agreement ("Special Payment Procedure").

**SECTION 2.2. *Notice.***

(a) Upon satisfactory completion of the conditions precedent set forth in Article X of this Payment Agreement, A.I.D. shall notify Borrower in accordance with the Loan Agreement that this Payment Agreement is in effect.

(b) Promptly upon receipt thereof Government shall notify A.I.D. of all payments received from Borrower in accordance with this Agreement.

**SECTION 2.3. *Exchange Rate.*** The Cruzeiro equivalent of the dollar amount which Borrower would be obligated to pay to A.I.D. in dollars if this Payment Agreement were not in effect shall be calculated at whichever rate of exchange would be applicable under the laws and regulations in force at the time if Borrower were obtaining dollars for payments directly to A.I.D. pursuant to the Loan Agreement.

**SECTION 2.4. *Denomination of Borrower's Payments.*** Although payable to Government in Cruzeiros, all payments by Borrower to Government shall, immediately upon receipt by Government, be denominated in dollars employing the exchange rate specified in or pursuant to Section 2.3.

**SECTION 2.5. *Use of Borrower's Payments — Special Account.*** Government shall deposit Borrower's payments in a separate account which Government shall establish in the Central Bank of Brazil or such other bank as Government and A.I.D. may agree upon ("Special Account"). Unless A.I.D. agrees otherwise in writing, such account shall be drawn upon by Government for the purpose of meeting payment obligations to A.I.D. pursuant to this Payment Agreement or

SECTION 2.5

for such purposes beneficial to the economic and social development of Brazil, consistent with the goals of the Alliance for Progress, as shall be mutually agreed to in writing by Government, or such organization as it may designate, and A.I.D. Provided, however, that the provisions of this Section shall in no way limit, modify or alter Government's obligation to make payment to A.I.D. pursuant to this Agreement.

ARTICLE III

Deferred Payment by Government to A.I.D.

SECTION 3.1. *Scope.* The provisions of this Article III shall apply unless and until A.I.D. invokes the guaranty set forth in Article IV.

SECTION 3.2. *Interest Payments — Interest on Untransferred Principal.* Immediately upon receipt of any interest payment from Borrower, Government shall pay to A.I.D. the lesser of the following two amounts: (i) an amount equal to the interest which Borrower would have been obligated to pay to A.I.D. if Borrower's interest obligation had been computed at the Government Interest Rate; or (ii) the amount of interest actually received from Borrower.

*First Disb.  
7-28-66*

SECTION 3.3. *Interest Payments — Interest on Transferred Principal.* In addition to the obligations set forth in Section 3.2, Government shall pay to A.I.D. interest at the Government Interest Rate, on Outstanding Transferred Principal and on any interest due and payable by Government to A.I.D. Interest on Outstanding Transferred Principal shall accrue from the dates on which Principal payments are received from Borrower by Government, and shall be payable to A.I.D. semi-annually, the first such payment to be made on a date to be specified by A.I.D., which date shall be no later than six (6) months after interest on Outstanding Transferred Principal begins to accrue.

SECTION 3.4. *Amortization of Transferred Principal.* Government agrees to pay to A.I.D. all Transferred Principal in accordance with Government Amortization Terms.

SECTION 3.5. *Use of Balances.* All amounts representing

- (i) differences between interest paid by Borrower to Government in accordance with Section 2.1, and interest payable by Government to A.I.D. pursuant to this Payment Agreement; and

**SECTION 3.5**

(ii) differences between the total amount of Transferred Principal and Transferred Principal due and payable by Government to A.I.D. pursuant to this Payment Agreement;

shall remain available to Government for use in accordance with Section 2.5 until such time as needed for payments to A.I.D.

**ARTICLE IV**

**Independent Guaranty**

**SECTION 4.1. Guaranty.**

(a) Government unconditionally and absolutely, jointly and severally as primary obligor with Borrower, undertakes to make, in accordance with the terms of the Loan Agreement, due and punctual payment of the Principal, interest and any other payment required of Borrower under the Loan Agreement.

(b) Government shall furnish such information and take such steps, related to making this Guaranty operative as A.I.D. may reasonably request.

(c) Government agrees to remain bound under this Payment Agreement, notwithstanding the extension of time of performance to, the granting of any other indulgency to, or any other modification of any obligation of Borrower under the Loan Agreement.

(d) A.I.D. may invoke the foregoing Guaranty upon the occurrence of any Event of Default as defined in the Loan Agreement, by delivery of notice to Government. Except as otherwise provided in Section 4.4, upon delivery of such notice and until such time as A.I.D. may otherwise agree in writing, Government shall meet its obligations to A.I.D. under this Article by making payments to A.I.D. in accordance with Sections 4.2 and 4.3.

**SECTION 4.2. Amortization.** In the event that the Guaranty is invoked by A.I.D., Government shall pay to A.I.D. the amount that Borrower is obligated to pay to A.I.D. pursuant to Section 2.2 of the Loan Agreement ("Repayment"), whether or not Borrower has discharged said obligation by payments to Government in Cruzeiros in accordance with Section 2.5 of the Loan Agreement and Section 2.1 of this Payment Agreement. Such payments by Government to A.I.D. shall be in accordance with Government Amortization Terms.

### SECTION 4.3

**SECTION 4.3. *Interest.*** In the event that the Guaranty is invoked by A.I.D., Government shall pay to A.I.D. interest at the Government Interest Rate on any Principal which has not been repaid to A.I.D., and on any interest due to A.I.D. Such interest shall accrue from the dates of the respective disbursements by A.I.D. under the Loan Agreement, and shall be payable to A.I.D. semi-annually, the first such payment to be due and payable on a date to be specified by A.I.D.

**SECTION 4.4. *Independent Nature of Guaranty.*** The Guaranty established in Section 4.1 shall remain in full force and effect whether or not the Special Payment Procedures established by Section 2.1 and other provisions of this Payment Agreement are, for any reason, terminated. In the event such Procedures are, for any reason, terminated, and the Guaranty is invoked by A.I.D., the provisions of Sections 4.2 and 4.3 shall cease to apply, and Government shall meet its obligations to A.I.D. under this Article by making payments to A.I.D. in accordance with the Loan Agreement and Section 4.1 of this Agreement.

## ARTICLE V

### Government Payments — General

**SECTION 5.1. *Currency of Payments.*** All payments by Government to A.I.D. shall be in United States dollars.

**SECTION 5.2. *Place of Payments.*** All payments by Government to A.I.D. shall be deemed to have been paid when delivered to the Controller, U.S.A.I.D. Mission to Brazil, Embassy of the United States of America, Rio de Janeiro, Gb., Brazil, or to such other address as A.I.D. may specify.

**SECTION 5.3. *Application of Payments.*** All payments by Government to A.I.D. shall be applied first to the payment of any interest due from Government to A.I.D. and unpaid, and then to the repayment of Principal due from Government to A.I.D.

**SECTION 5.4. *Prepayment.*** Government shall have the right to prepay without penalty at any time, all or any part of the Outstanding Transferred Principal. Any prepayment shall be applied in the order prescribed in Section 5.3, and amounts applied to the remaining installments of Outstanding Transferred Principal shall be applied pro rata to such installments.

## SECTION 5.5

**SECTION 5.5. *Renegotiation of Terms.*** In the light of the undertakings of the Government of the United States of America, Government and the other signatories of the Act of Bogota and the Charter of Punta del Este to join in an Alliance for Progress, Government agrees that at any time or times when it is requested to do so by A.I.D. under this Section, but not sooner than six (6) months before the date on which the first installment of Outstanding Transferred Principal is payable under Section 3.4 of this Payment Agreement, it will negotiate with A.I.D. concerning the acceleration of payments required to be made to A.I.D. pursuant to this Payment Agreement. The parties hereto shall mutually determine to what extent repayment should be accelerated on the basis of one or more of the following criteria:

(a) The capacity of Government to service a more rapid liquidation of its obligations in the light of the internal and external financial position of Brazil, taking into account debts owing to any agency of the United States of America or to any international organization of which the United States of America is a member;

(b) The relative capital requirements of Government and of the other signatories of the Act of Bogota and of the Charter of Punta del Este.

**SECTION 5.6. *Interest Computations on 365-Day Year Basis.*** Interest under this Agreement shall be computed on the basis of a 365-day year.

## ARTICLE VI

### Additional Covenants and Warranties

**SECTION 6.1. *Information.*** Government shall cooperate with A.I.D. in publicizing this Payment Agreement and the Loan Agreement as programs of American aid in furtherance of the Alliance for Progress.

**SECTION 6.2. *Notice of Adverse Developments.*** Government shall promptly inform A.I.D. of any conditions which interfere with, or threaten to interfere with, the carrying out by Government of its obligations under this Agreement.

**SECTION 6.3. *Taxation of this Payment Agreement and Payments Hereunder.*** This Payment Agreement shall be free from, and all payments to A.I.D. made hereunder shall be paid without deduction for and free from, any taxation or fees imposed under the laws of Brazil or laws in effect in its territory.

**ARTICLE VII**

**Records; Inspections; Reports**

**SECTION 7.1. Maintenance of Records; Inspections; Reports.**

(a) Government shall maintain or cause to be maintained for such time as shall meet the needs of the parties, books and records, including documentation, in accordance with sound accounting principles and practices adequate to identify the payments received pursuant to Section 2.1 hereof, and to identify programs or projects financed by funds disbursed from the Special Account, and indicate the progress of such activities.

(b) Such books and records shall be open at all times for examination by authorized representatives of Government and A.I.D., which procedure is consistent with Article II, Section 5 of the Agreement between the Government of Brazil and the Government of the United States of America signed on May 30, 1953, and subsequently approved by the Brazilian Congress. For this purpose, if Government and A.I.D. mutually agree, Government may maintain, within its accounting system, a segregated set of books and records for all transactions specifically related to the Special Account. Examination of the books and records will be carried out in practice by procedures which may include the following whenever mutually agreed to by Government and A.I.D.:

(1) Joint auditing under mutually agreed to conditions.

(2) The use of independent auditors selected by Government and acceptable to A.I.D.

(3) The inspection outside the premises of Government of certified documentation relating to the Special Account.

(c) Government shall cooperate with, and give reasonable assistance to, and shall facilitate inspections by A.I.D. with respect to the execution of the activities financed through the Special Account, and shall afford all reasonable opportunity for authorized representatives of A.I.D. to visit any part of the territory of Brazil for purposes related to this Payment Agreement.

(d) Government shall promptly furnish to A.I.D. such financial and other reports and information relating to the covenants of this Payment Agreement or transactions pursuant hereto as A.I.D. may request.

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**SECTION 8.1**

**ARTICLE VIII**

**Remedies of A.I.D.**

**SECTION 8.1. *Grounds for Termination.*** If any one or more of the following events ("Grounds for Termination") shall occur:

(a) Government shall fail to comply with any provision contained herein;

(b) A default shall have occurred under any other agreement between Government or any of its agencies and the United States of America or any of its agencies;

(c) A.I.D. determines that any representation or warranty made by or on behalf of Government in connection with this Agreement or the negotiations incident hereto, or pursuant to this Agreement is incorrect in any material respect;

(d) Any change in the character, capacity or credit-worthiness of Borrower, or a change in the conduct of the Project described in the Loan Agreement, which occurs because Government or any governmental authority in Brazil shall have taken any action by expropriation or otherwise for the dissolution or disestablishment of Borrower, or for the suspension of Borrower's activities or a substantial part thereof, or for the cancellation, substantial amendment or suspension of the right of Borrower to carry out a project;

(e) A.I.D. determines that an extraordinary situation has arisen which makes it improbable that the purposes of this Agreement be attained or that Government will be able to perform its obligations hereunder;

(f) Continuation of the procedures established herein would be in violation of the law governing A.I.D.;

then A.I.D., at its option, may declare:

(i) all or any part of the Outstanding Transferred Principal and any interest accrued thereon to be due and payable to A.I.D. immediately, specifying which installments thereof and interest thereon shall become due and payable; and/or

(ii) the Special Payment Procedure established herein to be terminated.

SECTION 8.1

Upon any such declaration, unless the cause for termination is cured within sixty (60) days thereafter, such Principal and interest shall become due and payable immediately, and/or the Special Payment Procedure shall be terminated in accordance with the terms of such declaration. Unless A.I.D. otherwise specifies, such termination shall not in any way affect the continued validity of the Guaranty contained in Section 4.1.

SECTION 8.2. *Waiver of Causes for Termination.* No delay in exercising or omission to exercise any right accruing to A.I.D. under this Agreement shall be construed as an acquiescence or as a waiver by A.I.D. of any such right.

SECTION 8.3. *Defaults.* For purposes of other agreements between Government and the United States of America or any of its agencies, the occurrence of an event specified in subsections 8.1(a), (c), or (d) shall be considered an "Event of Default" under this Agreement.

**ARTICLE IX**

**Miscellaneous**

SECTION 9.1. *Use of Representatives.*

(a) All actions required or permitted to be performed or taken under this Agreement by Government or A.I.D. may be performed by their respective duly authorized representatives.

(b) Government hereby designates the Minister of Finance as its representative with authority to designate in writing other representatives in its dealings with A.I.D. The representatives of Government named pursuant to the preceding sentence, unless A.I.D. is given notice otherwise, shall have authority to agree on behalf of Government to any modification of this Agreement which does not substantially increase Government's obligations hereunder. Until receipt by A.I.D. of written notice of revocation by Government of the authority of any of its representatives, A.I.D. may accept the signature of such representatives on any instrument as conclusive evidence that any action effected by such instrument is authorized by Government.

SECTION 9.2. *No Prejudice.* No provision of this Agreement shall terminate or modify any right of A.I.D. specified in or which may arise pursuant to the Loan Agreement.

**SECTION 9.3**

**SECTION 9.3. Notice.** Any notice, request or communication given, made or sent by Government or A.I.D. pursuant to this Agreement shall be in writing and shall be deemed to have been duly given, made or sent to the party to which it is addressed when it shall be delivered by hand or by mail, telegram, cable or radiogram to such other party at the following addresses:

**To Government:**

**Mail Address:**

Ministério da Fazenda  
Rio de Janeiro  
Brazil.

**Cable Address:**

MINIFAZ  
Rio de Janeiro.

**To A.I.D.:**

**Mail Address:**

Office of Capital Development  
Agency for International Development  
Embaixada dos Estados Unidos da América  
Rio de Janeiro, Brazil.

**Cable Address:**

USAID  
Amembassy  
Rio de Janeiro.

Other addresses may be substituted for the above upon the giving of notice and acknowledgement of such substitution.

**SECTION 9.4. Effective Date of Payment Agreement.** This Agreement shall enter into effect as of the day and year first above written.

**ARTICLE X**

**Conditions Precedent**

**SECTION 10.1. *Conditions Precedent to Use of Special Payment Procedure.*** The Special Payment Procedure shall not be employed unless and until Government has furnished A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion or opinions of the highest legal officer of the Ministry of Finance, or of other counsel satisfactory to A.I.D., that this Agreement has been duly authorized or ratified by and executed on behalf of Government, and that this Agreement and any obligations incurred by Government pursuant hereto do and will constitute valid and legally binding obligations of Government in accordance with their terms;

(b) Evidence of the authority of the person or persons who will act as representative or representatives of Government in connection with the operation of this Agreement pursuant to Section 9.1 of this Agreement, together with an authenticated specimen signature of each such person certified as to its authenticity by duly constituted Brazilian authority;

(c) A copy of any agreement between Government and Borrower relating to Government's rights against Borrower in the event that the Guaranty in Section 4.1 is invoked by A.I.D., or, in the absence of any such agreement, a statement of the applicable law.

**SECTION 10.2. *Terminal Date for Satisfying Conditions Precedent.*** If the conditions contained in Section 10.1 of this Agreement have not been satisfied by December 31, 1965 or such later date as A.I.D. may specify, A.I.D. may at any time thereafter terminate the Special Payment Procedure and/or all provisions of this Agreement by giving notice to Government.

IN WITNESS WHEREOF, Government and the United States of America, each acting through its respective duly authorized representative, have caused this Agreement to be signed in their respective names and delivered as of the day and year first above written.

UNITED STATES OF BRAZIL

By: (Signed) JOÃO DE OLIVEIRA  
CASTRO VIANNA  
*Authorized Representative*

UNITED STATES OF AMERICA

By: (Signed) DAVID BRONHEIM  
*Deputy U.S. Coordinator*

# **Alliance for Progress**

## **ESCROW AGREEMENT**

**Between the**

**UNITED STATES OF AMERICA**

**the**

**MORGAN GUARANTY TRUST COMPANY OF NEW YORK**

**and**

**SÃO PAULO LIGHT S.A. — SERVICOS DE ELETRICIDADE**

**In Connection With A.I.D. Loan No. 512-L-051  
(São Paulo Distribution)**

**Dated December 14, 1965**

**ESCROW AGREEMENT**

AGREEMENT, dated the 14th day of December, 1965, between the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D."), the MORGAN GUARANTY TRUST COMPANY OF NEW YORK ("Escrow Bank"), and SÃO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE ("Borrower"), a corporation existing under the laws of the United States of Brazil.

WHEREAS, by a Loan Agreement dated October 11, 1965, A.I.D. has made a loan to Borrower in the amount of \$15,000,000 or its equivalent in other currencies to finance the Project as defined in Section 1.2 of the Loan Agreement; and

WHEREAS, Borrower, under its then name of The São Paulo Tramway, Light and Power Company, Limited, entered into a Trust Indenture dated October 1, 1948 with National Trust Company, Limited, as Trustee, providing for the issuance of Debentures on the terms and conditions therein specified, secured by a floating charge on the properties of Borrower; and

WHEREAS, Borrower has agreed to deposit, on the terms and conditions herein contained, Debentures to secure the repayment of the principal and interest and other charges of the loan provided for in the Loan Agreement; and

WHEREAS, Escrow Bank has agreed to act as Escrow Agent to hold the deposited Debentures on the terms and conditions herein contained;

NOW, THEREFORE, the parties hereto hereby agree as follows:

**ARTICLE I**

**Definitions**

SECTION 1.1. Wherever used in this Escrow Agreement, unless the context shall otherwise require, the following terms shall have the meanings hereinafter in this Article set forth:

(1) The term "A.I.D." means the Agency for International Development, an agency of the United States of America.

**SECTION 1.1**

(2) The term "Escrow Agent" means the Escrow Bank, a corporation doing business in the State of New York, United States of America, or a successor to Escrow Bank.

(3) The term "dollars" and the sign \$ mean dollars in such coin or currency of the United States of America as at the time referred to shall be legal tender for the payment of public and private debts in the United States of America.

(4) The term "Trust Indenture" means the Trust Indenture dated October 1, 1948 between Borrower and National Trust Company, Limited.

(5) The term "Trustee" means National Trust Company, Limited or any person acting as trustee pursuant to the Trust Indenture.

(6) The term "Unsubordinated Debentures" means unsubordinated debentures as defined in the Trust Indenture.

(7) The term "Loan Agreement" means the loan agreement dated October 11, 1965 between A.I.D. and Borrower.

(8) The term "Loan" means the loan provided for in the Loan Agreement.

(9) The term "Escrow Account" means the escrow account provided for in Article II of this Escrow Agreement.

(10) The term "Deposited Debentures" means the debentures deposited in the Escrow Account as provided for in Article III of this Escrow Agreement.

**ARTICLE II**

**The Escrow Account**

SECTION 2.1. The Escrow Agent will open an Escrow Account entitled "São Paulo Light Escrow Account". The Escrow Agent will keep in the Escrow Account (a) the Deposited Debentures, and (b) all moneys which it shall receive on account of payments made on the Deposited Debentures on account of principal or interest.

SECTION 2.2. The Escrow Agent will release the Deposited Debentures from the Escrow Account and from the escrow upon compliance with the following conditions:

(a) When all amounts owing under the Loan Agreement on account of principal, interest and other charges shall have been paid or otherwise

**SECTION 5.2**

(a) A request for withdrawal of Deposited Debentures stating the principal amount of Deposited Debentures it desires to withdraw; and

(b) A certificate from A.I.D. setting forth the principal amount of the Loan then outstanding under the Loan Agreement.

**SECTION 6.3.** All Deposited Debentures withdrawn from the Escrow Account shall immediately be transmitted to the Trustee to be cancelled in accordance with the Trust Indenture. Borrower shall make no payments with respect to principal, interest or sinking fund on such debentures after they have been withdrawn from the Escrow Account.

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be signed in their respective names and delivered in the city of New York, New York, United States of America, as of the day and year first above written.

**UNITED STATES OF AMERICA**

By: (Signed) **PHILLIP GLAESSNER**  
*Deputy Assistant Administrator  
for Capital Development*

**MORGAN GUARANTY TRUST COMPANY OF NEW YORK**

By: (Signed) **W. L. BAKER**  
*Authorized Representative*

**SÃO PAULO LIGHT S.A. — SERVIÇOS DE ELETRICIDADE**

By: (Signed) **L. A. ALLEN**  
*Attorney*

By: (Signed) **J. H. A'COURT**  
*Attorney*

## SECTION 5.2

(iii) security for bank loans of the kind permitted to Borrower under the Trust Indenture;

(iv) mortgages, pledges or charges securing obligations in a principal amount at any time outstanding not in excess of \$3,738,000 or the equivalent thereof in other currencies;

(v) liens arising by operation of law in the ordinary course of business or in the expansion or construction of the operating facilities of Borrower; and

(vi) mortgages, pledges or charges expressed as ranking subsequent to the charges of the Alternative Debentures.

SECTION 5.3. Whenever Borrower desires to substitute other debentures for Deposited Debentures it shall deliver such other debentures to the Escrow Agent together with a certificate stating that such other debentures are Unsubordinated Series A Debentures issued under the Trust Indenture, or (i) a statement that such other debentures are qualified Alternative Debentures as specified in Section 5.2 of this Escrow Agreement and (ii) a letter from A.I.D. authorizing the Escrow Agent to accept such Alternative Debentures.

## ARTICLE VI

### Withdrawal of Deposited Debentures

SECTION 6.1. At any time prior to the occurrence of an Event of Default under Section 7.1 of the Loan Agreement, Borrower shall have the right to withdraw from the Escrow Account, and the Escrow Agent shall, upon written application made in accordance with Section 6.2 of this Escrow Agreement, deliver to Borrower Deposited Debentures; provided that, after any such delivery to Borrower, the principal amount of Deposited Debentures remaining in the Escrow Account shall be not less than one hundred and twenty per cent (120%) of the principal amount of the Loan then outstanding under the Loan Agreement.

SECTION 6.2. Whenever Borrower shall desire to withdraw Deposited Debentures from the Escrow Account it shall present a written application to the Escrow Agent containing:

**SECTION 4.2**

**SECTION 4.2.** Payments, if any, received by the Escrow Agent on account of principal or interest on the Deposited Debentures shall be deemed to be made in satisfaction of amounts owing under the Loan Agreement, and shall be delivered by the Escrow Agent to A.I.D. or its designee.

**SECTION 4.3.** Upon receipt of notice from A.I.D. to the effect that interest on the Loan has been paid to a date specified in such notice, the Escrow Agent shall detach from the Deposited Debentures and cancel all interest coupons maturing on or prior to the date so specified and shall deliver the same to or to the order of Borrower.

**SECTION 4.4.** Voting rights accruing pursuant to the Trust Indenture to holders of the Deposited Debentures may be exercised by A.I.D.

**ARTICLE V**

**Substitution of Deposited Debentures**

**SECTION 5.1.** Borrower agrees that it will, prior to the maturity date of the Deposited Debentures, extend the maturity date of such Deposited Debentures to a date subsequent to the last principal payment date of the Loan provided for in the Loan Agreement, or will substitute the Deposited Debentures with other debentures as provided in Section 5.2 of this Escrow Agreement.

**SECTION 5.2.** Borrower shall have the right to substitute other debentures in an equivalent aggregate principal amount for Deposited Debentures, provided, however, that such Alternative Debentures are issued pursuant to an indenture by the terms of which all the property and assets of Borrower are charged by way of a floating charge (or, at the option of Borrower, by way of a specific mortgage on certain property and assets and a floating charge on all other property and assets of Borrower) to secure such debentures, and which creates valid and effective charges according to its terms on all property and assets of Borrower, and there exist no mortgages, pledges or other charges securing indebtedness of Borrower except:

- (i) the Alternative Debentures;
- (ii) existing or purchase money mortgages, liens, or charges on property acquired by purchase, consolidation or merger, and extensions or renewals thereof (for refunding purposes only) with the same mortgagee or with any other person;

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**SECTION 2.2**

satisfied and discharged, all Deposited Debentures shall be delivered by the Escrow Agent to the Trustee for cancellation pursuant to the Trust Indenture, and all moneys which may have been received by the Escrow Agent on account of payments made on the Deposited Debentures shall be paid by the Escrow Agent to Borrower.

(b) If Borrower shall fail to pay in full when due any installments of principal or interest under the Loan Agreement and such failure shall have continued for 60 days, or Borrower shall fail to make any other payment required pursuant to Sections 7.2 or 7.3 of the Loan Agreement, all Deposited Debentures and all moneys which may have been received by the Escrow Agent on account of payments made on the Deposited Debentures shall, upon written request by A.I.D. to the Escrow Agent, be delivered by the Escrow Agent to or on the order of A.I.D.

**ARTICLE III**

**The Deposited Debentures**

**SECTION 3.1.** Borrower will deposit or cause to be deposited with the Escrow Agent Unsubordinated Debentures in bearer form duly authenticated by the Trustee under the Trust Indenture of the series designated in the Trust Indenture as Series A in a principal amount of \$18,000,000.

**SECTION 3.2.** From time to time thereafter, additional amounts of Unsubordinated Debentures duly authenticated under the Trust Indenture may be deposited by Borrower with the Escrow Agent to be kept in the Escrow Account.

**ARTICLE IV**

**Payments on and Voting of Deposited Debentures**

**SECTION 4.1.** It is the understanding of the parties hereto that, unless and until the Deposited Debentures shall have been delivered to or on the order of A.I.D. pursuant to Section 2.2(b) of this Escrow Agreement, no amount shall be paid on account of interest on the Deposited Debentures, and that the Deposited Debentures are held by the Escrow Agent by way of security and in guaranty for the repayment of the principal and interest and other charges on the Loan provided for in the Loan Agreement.