

PROJECT ABSTRACT

Project name:	Celtins Investment and Refinancing Program
Project number:	BR-L1070
Country:	Brazil
Borrower:	<i>Companhia de Energia Elétrica do Estado do Tocantins</i> ("Celtins")
Total Project Cost:	Approximately US\$333.3 million
Proposed IDB A- Loan:	Up to US\$90.8 million
Department:	Private Sector Department ("PRI")
Status:	Due Diligence
Date:	October 20, 2006

I. PROJECT DESCRIPTION

Celtins is the electricity distribution concessionaire for the State of *Tocantins*, located in Brazil's North Region. Celtins was created in March 1989 and was privatized in September of that same year when the *Grupo Rede* ("Rede Group") successfully bid for the acquisition of Celtins' controlling interest (70 percent). Celtins operates under a 30-year concession signed in June 1999 and which may be extended, upon termination, for another 20-years.

Celtins is seeking financing for its 2006-2010 Investment Program of US\$286.9 million and US\$46.3 million of refinancing (together the "Investment and Refinancing Program") plus US\$29.9 million for financing related costs (the "Project"). The Investment and Refinancing Program aims to expand and modernize Celtins' electrical network allowing the company to: (i) provide electricity to new customers in urban and rural areas; and (ii) improve the quality and reliability of its electric network.

Celtins' Investment Program comprises the following components: (i) distribution network expansion and upgrade; (ii) rural electrification expansion ("Luz Para Todos" Project); (iii) urban networks expansion; and (iv) distribution system quality improvement, and (v) refinancing.

II. PROJECT BENEFITS

Promote basic infrastructure: The Investment and Refinancing Program will provide increased energy coverage in the State of *Tocantins* (mainly in rural areas) with updated distribution infrastructure such as distribution networks, rural and urban distribution transformers and construction works in the distribution system.

Foster rural electrification: Celtins will build new distribution networks in rural areas throughout the State of *Tocantins*. The majority of Brazil's population that does not have access to electricity is located in the North Region and amounts to approximately 2.5 million, representing 62.5 percent of the rural population. As such, the implementation of

the Project will allow Celtins to increase its coverage area in accordance with its concession contract and its participation in the “*Luz Para Todos*” project, intended to increase the availability of energy in rural areas.

Foster economic and social development. Through expanding service connections in both rural and urban areas, as well as improving reliability and efficiency of its low and high-voltage distribution infrastructure, Celtins’ Investment and Refinancing Program will facilitate economic and social development throughout the State of Tocantins. Not only will all consumer groups benefit from cost savings, to the extent that such costs are passed on, but consumers will benefit from reduced duration and frequency of outages. As such, the Investment and Refinancing Program will enable Celtins to continue to improve its quality indicators (i.e. DEC and FEC in particular), continue to benefit all consumers and thus have a positive developmental impact over the medium and long-term in the region.

Improve quality, efficiency and reliability of the electricity sector. In addition to increasing service coverage, Celtins’ Investment and Refinancing Program is designed to improve the quality and efficiency of its distribution system in order to reduce losses and to increase energy efficiency. Through investments in network development, Celtins will improve system balance in order to avoid overload and shortages. In addition, upgrades to and adjustments of both low and high-voltage distribution lines will result in its system being able to accommodate greater demand for electricity without Celtins having to purchase additional energy.

Support for private provision of infrastructure services. Promote private sector provision of infrastructure services. Total projects are over US\$300 million, which provides for significant private sector involvement in the energy sector. As such, the Project contributes to relieve the public sector of infrastructure investments that would have otherwise been required in this sector in the State of Tocantins.

III. IDB PARTICIPATION

Access to long-term financing in local currency in Brazil is limited to *Banco Nacional de Desenvolvimento Econômico e Social* (“BNDES”) financing, and BNDES has significant exposure to Rede Group, limiting the latter’s ability to obtain substantial additional BNDES financing. The Project requires financing for longer tenors than the market is typically prepared to offer. Bank provision of longer-term financing (with the A-Loan) and through its mobilization of the commercial bank market, provides such additionality. Moreover, the financing package will include a refinancing component which will extend the tenor of Celtins’ existing debt from 3 years to 9 years, thus enhancing the debt profile and financial position of the Company.

IV. ENVIRONMENTAL AND SOCIAL ASPECTS

The Investment and Refinancing Program under analysis to be financed by the Bank comprises essentially the expansion and renovation of the network and the rehabilitation and improvement of the operating conditions, as well as the expansion of distribution services in rural, as well as in urban residential and commercial areas. Significant environmental and social impacts are not anticipated as the new and upgraded infrastructure does not involve large construction works and is not expected to require resettlement or produce significant adverse impacts on indigenous communities or natural habitats.

The participation of the Bank provides significant additionality by requiring the Company to maintain environmental, social, health and safety plans and procedures that may go beyond what is usually required by Brazilian regulations. The Bank and its environmental and social consultants will assist the Company in the development of the necessary mitigation and monitoring plans and procedures to ensure that Project-related environmental, social health and safety impacts and risks are adequately mitigated. The Bank will also undertake various supervision activities to ensure the correct implementation of these plans.

IDB's **Environmental and Social Strategy** for this operation is presented in a separate document.