PROJECT ABSTRACT

Transaction Name:	Energisa Debt Restructuring
Location:	Brazil
Project Number	BR-L1090
Sector:	Infrastructure - Energy
Transaction Type:	Corporate Refinancing – Partial Credit Guarantee
Borrower:	*Energisa S.A.*
Total Project Cost:	Approximately US$780 million[1]
IDB PCG:	Up to US$180 million

I. TRANSACTION DESCRIPTION

Energisa S.A. ("Energisa" or the "Company") is planning to undertake a debt-restructuring[2], after which, Energisa's ability to service its debt is expected to improve due to the longer tenors provided by the operation. In addition, the transaction will allow Energisa to free up funds for investing in its subsidiaries for improvements in their quality of service.

Energisa's debt-restructuring will consist of a Local Currency Loan ("LCL") with an expected tenor of 10 years including a 3-year grace period. If the LCL is funded by a an acceptable lender in *Reais* ("Funding Bank") with a PCG from IDB, the proposed IDB PCG will be for an amount of up to US$180 million[3]. The PCG amount will decline as the underlying loan is amortized.

Energisa is a holding company currently undergoing an unbundling and restructuring process after which it will directly control: (i) five <u>distribution</u> companies as subsidiaries[4] (see Annex I): *Companhia Força e Luz Cataguazes-Leopoldina* ("Cflcl"), *Companhia Energética de Borborema* ("Celb"), *Companhia de Electricidade de Nova Friburgo* ("Cenf"), *Empresa Energética de Sergipe S.A.* ("Energipe") and *Sociedade Anônima de Eletrificação da Paraíba* ("Saelpa")[5]; (ii) the <u>generation</u> company *Juiz de Fora* ("UTE-JF"), and (iii) the <u>services</u> companies: *Cat-Leo Cise*; *Cataguazes Serviços Aéreos*; and *Teleserv*.

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1 For refinancing projects, the total project costs is the company's liabilities (as of June 2006, Energisa's liabilities were US$780 million).

2 The transaction complies with the *Note on Private Sector Debt Restructuring Expenditures* (GN-1860-7), approved in November 22, 2005.

3 The per project limit of the IDB's PCG is 50 percent of the Borrower's total liabilities, subject to the US$200 million per project limit.

4 Until the conclusion of the unbundling (expected to occur in April 2007), Energisa directly or indirectly controls three distribution companies: Energipe, Saelpa and Celb.

5 These subsidiaries are located in the Northeast and Southeast regions of Brazil, in the states of *Sergipe* (Energipe), *Paraíba* (Saelpa and Celb), *Rio de Janeiro* (Cflcl and Cenf) and *Minas Gerais* (Cflcl). On a consolidated basis, this reduces the group's vulnerability to socio-economic factors.

II. DEVELOPMENTAL IMPACT

The transaction will allow Energisa to improve its debt profile and thus free up funds for investing in its subsidiaries for improvement in the quality of service and efficiency of its distribution system in order to reduce losses and to increase energy efficiency. Performance indicators include: a lower annual debt-service as a percentage of cash flow available for debt service; and improved quality of service by its subsidiaries, as measured by the DEC and FEC.

III. BANK'S ADDITIONALITY

Financial. IDB will provide access to long-term financing in local currency to extend the tenor of Energisa's existing debt.

Environmental, Social, Health and Safety Additionality. The Bank will assist the Company in the development of the necessary mitigation and monitoring plans and procedures to ensure that all applicable environmental, social health and safety impacts and risks are adequately mitigated.

IV. ENVIRONMENTAL AND SOCIAL

The Project under consideration is a debt-restructuring operation that does not involve construction or implementation of any infrastructure or civil works and is expected to have minimal environmental and social impacts. Therefore, as per IDB's OP 703 Environment and Safeguards Compliance Policy, the Project has been classified as a Category C operation.

Nevertheless, there may exist some limited environmental liabilities associated with Energisa and subsidiaries existing facilities and operations, which go beyond the project that is being considered for financing by IDB. However, those liabilities are expected to be of limited magnitude as: (i) the information provided by the Company indicates that they are in compliance with all applicable environmental licenses and permits; (ii) possible negative environmental impacts and risks are expected to be non-significant in view of the nature, location and magnitude of the facilities involved; (iii) Energisa and subsidiaries have specific procedures and resources to address these impacts and risks; and (iv) the companies involved indicated that they have capacity and commitment to address and manage environmental matters.

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