

CONFORMED COPY

LOAN NUMBER 7870-BR

Loan Agreement

(São Paulo Water Recovery Project-REÁGUA –
Programa Estadual de Apoio à Recuperação das Águas – REÁGUA)

between

STATE OF SÃO PAULO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 27, 2010

LOAN AGREEMENT

Agreement dated September 27, 2010, between STATE OF SÃO PAULO (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of sixty four million, four hundred and ninety six thousand Dollars (\$64,496,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

- 2.07. (a) The Borrower may at any time, in each case with the prior no-objection of the Guarantor and through the Guarantor's Secretariat of National Treasury, request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project through SSE, with the assistance of Service Providers in respect of Parts 1 and 2 of the Project, in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. (a) The Additional Event of Suspension consists of the following, namely that any of the Service Providers shall have failed to comply with the provisions of its Project and Performance Agreement - PPA.
- (b) Notwithstanding the rights contained in Section 7.02 of the General Conditions, it is understood that, if any of the Service Providers shall have failed to comply with the provisions of its PPA the Bank may, by notice to the Borrower, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures attributable to the respective Service Provider.

- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement concurrently occurs with respect to all of the Service Providers participating in the Project and is continuing for a period of 90 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Legal Matter consists of the following:

The Loan has been registered by the Guarantor's Central Bank.

- 5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on November 4, 2011.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Secretary of Finance.

- 6.02. The Borrower's Address is:

Secretaria da Fazenda do Estado de São Paulo
Av. Rangel Pestana, 300 – 5º andar
01017-911 São Paulo – SP
Brasil

Facsimile: (55-11) 3107-6942

With copy to:

Secretaria de Saneamento e Energia
Rua Bela Cintra, 847 – 14º andar
01415-903 São Paulo – SP
Brasil

Facsimile: (55-11) 3218-5629

- 6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at São Paulo, Federative Republic of Brazil, as of the day and year first above written.

STATE OF SÃO PAULO

By /s/ Alberto Goldman

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Makhtar Diop

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase clean water availability in the Critical Watersheds.

The Project consists of the following parts:

Part 1: Water Availability Increase

1. Carrying out of activities aimed to control and reduce real water losses within the Critical Watersheds, including *inter alia*: determination of baseline water losses, sectorization into district metered areas, installation of pressure controls, implementation of macro and micro-metering, development of a technical cadastre, implementation of active control of leaks, management of networks and infrastructure, and improvements in the speed and quality of repairs (the Water Loss Control and Reduction Subprojects).
2. Carrying out of activities aimed to improve water consumption efficiency in selected public schools through a more rational use of water including, *inter alia*, diagnosis of water consumption practices and potential for reduction, installation of water-saving appliances such as improved faucets and toilets, and implementation of awareness campaigns to educate students and teachers to economize their use of water (the Water Rational Use Subprojects).
3. Carrying out of activities aimed to incentivize the reuse of treated wastewater for industrial, agricultural and other purposes and develop reuse techniques including, *inter alia*: building of additional treatment facilities and networks to transport treated wastewater to the end user (the Treated Wastewater Reuse Subprojects).

Part 2: Water Quality Enhancement

1. Carrying out of activities aimed at improving the quality of water in the Critical Watersheds, including, *inter alia*: preparing engineering designs, obtaining required environmental and construction licenses and mobilizing construction firms, building service lines, and connecting households to the networks (the Wastewater Collection Network Subprojects).
2. Carrying out of activities aimed at improving the quality of water in the Critical Watersheds, including, *inter alia*: installing gravity wastewater pipes and forced wastewater pipes; and building wastewater pumping stations (the Wastewater Transport System Subprojects).
3. Carrying out of activities aimed at improving the quality of water in the Critical Watersheds, including, *inter alia*: constructing new wastewater treatment plants in areas linked to the Critical Watersheds where wastewater is currently untreated and where small-size treatment plants offer satisfactory solutions, and upgrading existing

wastewater systems to raise their effluent quality standards (the Wastewater Treatment Plant Upgrading and/or Construction Subprojects).

Part 3: Institutional and Technical Strengthening

1. Carrying out of activities aimed to increase the efficiency of the Borrower's water and sanitation sector by enhancing and consolidating its institutional, legal and regulatory framework and strengthening of its technical expertise including, *inter alia*:
 - (a) the carrying out of an impact evaluation study on the output-based financing scheme financed by the Loan *vis-à-vis* the traditional input-based financing approach, specifically on impact of the output-based approach on the construction time period and costs and sustainability; and
 - (b) the provision of technical assistance, capacity building, and training to water and sanitation service providers, (including the Service Providers) in the design, operation, and maintenance of programs and facilities associated with the implementation of Parts 1 and 2 of the Project including institutional restructuring, corporate governance, and subproject preparation.
2. Provision of support for Project management, supervision and auditing, including provision of experts for the strengthening of the PMU in the management of the Project and in the verification of Outputs and the PPA Performance Indicators, publications and dissemination activities, and training and capacity building to strengthen the Borrower's capacity in matters related to Project implementation and supervision.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall:
 - (a) maintain throughout Project implementation, a management unit (PMU) with the powers and responsibilities set forth in the Operational Manual; and
 - (b) no later than two months from the Effective Date, have said unit fully staffed with personnel with experience and qualifications satisfactory to the Bank, including the following key staff: a coordinator and experts, one each to handle the technical, procurement, financial management and safeguard aspects of the Project.
2. The Borrower shall, no later than four months after the Effective Date or before submitting the first application for withdrawal for Subprojects, whichever shall occur first, employ a verification agent (VA), under terms of employment or contracting satisfactory to the Bank which shall include *inter alia* VA's obligation:
 - (a) to assist the Borrower in the verification of achievement of the Outputs and compliance with the PPA Performance Indicators of the Subprojects; and
 - (b) to carry out ex-post reviews of the completeness, accuracy, and authenticity of the documentation provided by Service Providers, as well as ex-post physical spot verifications of a meaningful and random sample of Outputs and PPA Performance Indicators.

B. Agreements

1. (a) The Borrower shall enter into a Project and Performance Agreement (PPA) with each of the Service Providers, and the respective Municipality when applicable, under terms and conditions satisfactory to the Bank, to set forth *inter alia*:
 - (i) the Service Provider's obligation:
 - (I) to carry out the Subproject or Subprojects, as the case may be, and deliver the Outputs set forth in the PPA in accordance with the requirements and schedule included therein;
 - (II) to meet the PPA Performance Indicators set forth in the PPA;
 - (III) to comply with the safeguard, fiduciary and technical requirements of the Subproject;

- (IV) to enable the required financial and procurement audits to be carried out by the Borrower, as well as the verifications of compliance of delivery of Outputs and PPA Performance Indicators;
 - (V) to comply with the reporting requirements applicable to the Subproject and enable the Borrower and the Bank to review the documents related to the Subproject and enter the construction sites of the Subproject;
 - (VI) to comply with the required performance self evaluations;
 - (VII) to comply with the procurement requirements of the Subproject, including the procurement methods applicable as per the Procurement Plan to comply with the Anti-Corruption Guidelines; and
 - (VIII) to refund payments made for Outputs as follows:
 - (A) for Wastewater Collection Network Subprojects refund the payments made for the first Output indicated in the table in paragraph 3 of Section IV of this Schedule if the second Output is not delivered;
 - (B) for Wastewater Transport System Subprojects refund any payments made for Outputs if the first, second and/or the third Output indicated in the table in paragraph 3 of Section IV of this Schedule and as set forth in the PPA is not delivered; and
 - (C) for Wastewater Treatment Plant Upgrading and/or Construction Subprojects refund the payments made for the first and second Outputs indicated in the table in paragraph 3 of Section IV of this Schedule if the third Output is not delivered.
- (ii) the Borrower's obligation:
- (I) to pay for the Unit Costs of Outputs in the amounts and at the intervals specified in the PPA, and including: (A) an initial payment upon completion of the first Output or set of Outputs, (B) intermediate payments at the delivery or completion of each of the subsequent Outputs required for the Subproject, and (C) a final payment upon the Service Provider's fulfillment of the PPA Performance Indicators, all as verified by the VA and the Borrower; and

- (II) to ensure that the Service Provider complies with the provisions applicable to the Subproject as set forth in the Loan Agreement.
 - (b) Except as the Bank shall otherwise agree, the Borrower shall not amend, assign, abrogate, waive or fail to enforce the PPA or any of its provisions.
2. (a) Without limitation to the provisions of paragraph 1 above, the Borrower shall cause the Service Providers implementing Treated Wastewater Reuse Subprojects:
- (i) prior to implementation of the Subproject, to enter into an agreement or other legal arrangement with the prospective user of the treated water under terms and conditions satisfactory to the Bank, to set forth, *inter alia*, the terms and quantity of such use; and
 - (ii) except as the Bank shall otherwise agree, not to amend, assign, abrogate, waive or fail to enforce the contract or other agreement referred to in (a) (i) above, or any of its provisions.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Operational Manual

Without limitation to the provisions of Article V of the General Conditions, the Borrower shall carry out the Project in accordance with the Operational Manual, satisfactory to the Bank, containing, *inter alia*:

- (a) the functions, responsibilities and training requirements for the personnel responsible for the coordination, monitoring and evaluation of the Project, including the PMU;
- (b) procedures for procurement of goods, works and services, as well as for financial management, disbursement and audits of the Project and the respective forms, reports and guidelines;
- (c) the indicators to be used in the monitoring and evaluation of the Project;
- (d) the eligibility and selection criteria of the Subprojects as set forth in the Call for Proposals, the requirements and operating guidelines applicable to the Subprojects, size of eligible contracts, and in respect of each type of Subprojects, the Outputs, the Unit Cost of such Outputs as per the agreed typologies, and the PPA Performance Indicators;
- (e) a PPA model;

- (f) the Environmental Management Plan and the Resettlement Policy Framework;
and
- (g) the counterpart funding requirements of the Project.

In case of any conflict between the provisions of this Agreement and those of the Operational Manual, the provisions of this Agreement shall prevail.

E. Safeguards

1. The Borrower shall in respect of Parts 1 and 2 of the Project:
 - (a) ensure that no Subproject requiring resettlement is authorized for implementation under the Project;
 - (b) cause the Service Providers, in the event that during implementation of a Subproject resettlement is required: (I) to furnish to the Bank for its approval, in accordance with the Resettlement Policy Framework, prior to initiating the bidding process for any contract for construction works that call for resettlement, any needed Resettlement Plan, and (II) to carry out such Resettlement Plan, in accordance with its terms; and
 - (c) cause the Service Providers to carry out the Subprojects in accordance with the Environmental Management Plan, and furnish to the Bank any needed documentation as required by such Environmental Management Plan.

F. Other Covenants

1. For the purposes of Parts 1 and 2 of the Project, the Borrower shall, through SSE, monitor the implementation of the Subprojects, the delivery of the Outputs and compliance with the PPA Performance Indicators, on a periodic basis, all under terms acceptable to the Bank.
2. The Borrower shall, through SSE, jointly with the Bank and not later than twenty-four months after the Effective Date, review the Outputs and related Unit Costs, and adjust them as necessary, in a manner satisfactory to the Bank.
3. Without limitation to the provisions of paragraph 2. above the Borrower may, through SSE, propose the Bank additional reviews of the Outputs and related Unit Costs earlier or later than as set forth in the preceding paragraph, and after such reviews, adjust them as necessary, in a manner satisfactory to the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than 45 days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Non-Consultant Services and Works.** All goods, non-consultant services and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Non-Consultant Services and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, non-consultant services and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods, Non-Consultant Services and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, non-consultant services and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

| <u>Procurement Method</u> |
|--|
| (a) National Competitive Bidding including in respect of goods, works and non-consultant services, <i>convite, tomada de preços and concorrência</i> (set forth in the Guarantor's Law no. 8666 of June 21, 1993), <i>pregão eletrônico</i> (set forth in the Guarantor's Law no, 10520 of July 17, 2002), under COMPRASNET, the procurement portal of the Guarantor, or any other e-procurement system approved by the Bank, subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank. |
| (b) Shopping |
| (c) Direct Contracting |

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

| <u>Procurement Method</u> |
|--|
| (a) Least Cost Selection |
| (b) Selection Based on Consultants' Qualifications |
| (c) Quality Based Selection |
| (d) Fixed Cost Selection |
| (e) Single Source Selection |
| (f) Individual Consultants |

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. (a) The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

| Category | Amount of the Loan Allocated (expressed in USD) | Percentage of Expenditures to be financed (inclusive of Taxes) |
|---|--|--|
| (1) Goods, Non-consultants’ Services, and consultants’ services for Part 3 of the Project | 5,000,000 | 100% |
| (2) Subprojects | 55,000,000 | 100% of the applicable Unit Costs of the Outputs included in a Subproject paid by the Borrower to the Service Provider as per the terms of the PPA |
| (3) Unallocated | 4,334,760 | |
| (4) Front-end Fee | 161,240 | Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions |
| (5) Premia for Interest Rate Caps and Interest Rate Collars | 0 | Amount due under Section 2.07 (c) of this Agreement |
| TOTAL AMOUNT | 64,496,000 | |

- (b) The term “Non-consultants Services” means the costs of publications and dissemination activities, training and capacity building, except consulting fees, under Part 3 of the Project.

3. The Outputs eligible for financing for each type of Subproject are as follows:

| Subproject | Output |
|--|--|
| Water Loss Control and Reduction Subprojects | Cubic meters of recovered water as measured against the baseline set forth in the PPA |
| Water Rational Use Subprojects | Water saving appliances installed and environmental campaign executed |
| Treated Wastewater Reuse Subprojects | 1. Wastewater reuse facilities (treatment plant, transport and reservoirs) built and operational 2. Wastewater reuse facilities operating in accordance with operational standards set forth in the PPA |
| Wastewater Collection Network Subprojects | 1. Engineering designs, required licenses and contractor's mobilization 2. Service lines and connections built 3. Active connections operating in accordance with operational standards set forth in the PPA. |
| Wastewater Transport System Subprojects | 1. Meters of gravity wastewater pipes installed 2. Meters of forced wastewater pipes installed 3. Wastewater pumping stations installed 4. Wastewater transport system operating in accordance with operational standards set forth in the PPA |
| Wastewater Treatment Plant Upgrading and/or Construction Subprojects | 1. Earthworks and foundation works completed 2. Physical structure of wastewater treatment plant completed 3. Construction completed and wastewater treatment plant in testing mode 4. Wastewater treatment plant operating in accordance with environmental standards set forth in the PPA |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$5,000,000 equivalent may be made for payments made prior to this date but on or after March 8, 2010, for Eligible Expenditures.
2. (a) If the Bank shall have determined at any time after the expiration of the terms of a PPA that a Service Provider has failed to deliver any of the Outputs of a Subproject that would enable the Borrower to call for a refund of earlier financed Outputs as mentioned in Section I.B. 1 (a) (i) (VIII) of this Schedule, the Bank may at that time obtain a refund to the Bank from the Borrower of an amount equal to the amount of Loan proceeds disbursed to finance those earlier Outputs.

- (b) Refunds to the Bank made pursuant to the preceding paragraph shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.
- 3. The Closing Date is November 30, 2015. The Bank will only grant an extension of the Closing Date after the Guarantor's Ministry of Finance has informed the Bank that it agrees with such extension.

SCHEDULE 3

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

| Principal Payment Date | Installment Share (Expressed as a Percentage) |
|---|--|
| On each June 15 and December 15 Beginning June 15, 2015 through December 15, 2039 | 2% |

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued

on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Call for Proposals” means *Edital para a Seleção de Ações de Saneamento Ambiental no Âmbito do Programa REÁGUA*, the call for proposals for Subprojects issued by the Borrower on November 27, 2008.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Critical Watersheds” means the following watersheds in the Borrower’s territory: Piracicaba/Capivari/Jundiaí; Alto Tietê; Sapucaí Mirim/Grande; Mogi Guaçu; and Sorocaba/Médio Tietê.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Environmental Management Plan” means the plan for assessment and management of the environmental, cultural property, and natural habitats aspects of the Project dated April 3, 2009 and set forth in the Operational Manual.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
8. “Municipality” means any municipality in the Borrower’s territory, located within the geographical boundaries of any of the Critical Watersheds, and which owns a Service Provider that will execute one or more activities under Parts 1 and 2 of the Project.
9. “Operational Manual” means the manual referred to in Section I.D of Schedule 2 to this Agreement and approved by the Bank on March 9, 2010, as the same may be amended from time to time in agreement with the Bank.
10. “Output” means any of the construction phase or operation phase outputs eligible for financing out of the proceeds of the Loan as set forth in paragraph 3 of Section IV. A of Schedule 2 to the Loan Agreement for each type of Subproject and in the numbers and typology included in the respective PPA.
11. “PMU” means the unit referred to in Section I. A. 1 of Schedule 2 to this Agreement and established pursuant to the Borrower’s Decree No. 55494, dated February 26, 2010.
12. “PPA” means any of the Project and Performance Agreements referred to in Section I. B. 1 of Schedule 2 to this Agreement.

13. “PPA Performance Indicators” means the targets and the indicators set forth in a PPA to be fulfilled by the Service Provider as conditions of sustainability of a Subproject for the final payment of the Unit Cost of Outputs.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
15. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 10, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
16. “Resettlement Plan” means any plan prepared following the requirements of the Resettlement Policy Framework and approved by the Bank.
17. “Resettlement Policy Framework” means the framework dated April 3, 2009 and set forth in the Operational Manual defining the procedures for the involuntary resettlement of population in connection with Subprojects.
18. “Reuse Water Agreement” means any of the agreements or other legal arrangements referred to in Section I. B. 2 of Schedule 2 to this Agreement.
19. “Service Provider” means a public utility owned by the Borrower or a Municipality or a public municipal agency which provides water and/or sanitation services in any of the Critical Watersheds, has received a favorable financial management and procurement assessment by the Bank for purposes of the Subproject and is otherwise eligible to participate in the implementation of Subprojects in accordance with the criteria and requirements of the Operational Manual.
20. “SSE” means the Borrower’s Secretariat for Water Supply, Sanitation and Energy.
21. “Subprojects” means collectively Water Loss Control and Reduction Subprojects, Wastewater Collection Network Subprojects, Water Rational Use Subprojects, Treated Wastewater Reuse Subprojects, Wastewater Transport System Subprojects, and Wastewater Treatment Plant Upgrading and/or Construction Subprojects.
22. “Treated Wastewater Reuse Subproject” means the activities referred to in Part 1.3 of the Project to be carried out by a Service Provider in any of the Critical Watersheds eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual.
23. “Unit Cost” means the unit cost of goods, works, non-consultant services and consultant services required for implementation of each of the Outputs of a Subproject in the typology specified in the PPA, all as set forth in the Operational Manual and the PPA.
24. “VA” means the verification agent referred to in Section I.A.2 of Schedule 2 to this Agreement.

25. “Wastewater Collection Network Subproject” means the activities referred to in Part 2.1 of the Project to be carried out by a Service Provider in any of the Critical Watersheds eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual.
26. “Wastewater Transport System Subproject” means the activities referred to in Part 2.2 of the Project to be carried out by a Service Provider in any of the Critical Watersheds eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual.
27. “Wastewater Treatment Plant Upgrading and/or Construction Subproject” means the activities referred to in Part 2.3 of the Project to be carried out by a Service Provider in any of the Critical Watersheds eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual.
28. “Water Loss Control and Reduction Subproject” means the activities referred to in Part 1.1 of the Project to be carried out by a Service Provider in any of the Critical Watersheds eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual.
29. “Water Rational Use Subproject” means the activities referred to in Part 1.2 of the Project to be carried out by a Service Provider in any of the Critical Watersheds eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual.