

CONFORMED COPY

LOAN NUMBER 2983 BR

(Water Project for Municipalities
and Low-Income Areas)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

MUNICIPALITY OF CAMPINAS

and

SOCIEDADE DE ABASTECIMENTO DE AGUA
E SANEAMENTO S.A.

Dated December 30, 1988

LOAN NUMBER 2983 BR

PROJECT AGREEMENT

AGREEMENT, dated December 30, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and MUNICIPALITY OF CAMPINAS (CAMPINAS) and SOCIEDADE DE ABASTECIMENTO DE AGUA E SANEAMENTO S.A. (SANASA).

WHEREAS (A) by the Loan Agreement of even date herewith between Caixa Economica Federal-CEF (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to eighty million dollars (\$80,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that, inter alia, CAMPINAS and SANASA agree to undertake such obligations

toward the Bank as are set forth in this Agreement;

(B) by a loan agreement to be entered into between the Borrower and SANASA and CAMPINAS, as guarantor, the proceeds of the loan provided for under the Loan Agreement for the execution of Part B of the Project will be made available to SANASA on the terms and conditions set forth in said agreement, (the SANASA Agreement); and

WHEREAS CAMPINAS and SANASA, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) CAMPINAS and SANASA declare their commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, SANASA shall carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility, sanitation and ecological practices, and CAMPINAS and SANASA shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to, and as part of the foregoing, CAMPINAS shall make a loan for purposes of Part B of the Project, in an amount equivalent to not less than twenty-seven million two hundred forty thousand dollars (\$27,240,000) under a loan agreement to be entered into between CAMPINAS and SANASA (the CAMPINAS-SANASA Agreement) under terms and conditions satisfactory to the Bank.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 5 to the Loan Agreement.

Section 2.03. SANASA shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Part B of the Project.

Section 2.04. (a) CAMPINAS and SANASA shall enter into the SANASA Agreement, referred to in Section 3.01 (b) (ii) of the Loan Agreement; and

(b) CAMPINAS and SANASA shall duly perform all their respective obligations under the SANASA Agreement and the CAMPINAS-SANASA Agreement. Except as the Bank and the Borrower shall otherwise agree, CAMPINAS or SANASA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the SANASA Agreement or the CAMPINAS-SANASA Agreement, or any provision thereof.

Section 2.05. (a) CAMPINAS and SANASA shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of their obligations under this Agreement and under the SANASA Agreement, and other matters relating to the purposes of the Loan; and

(b) CAMPINAS and SANASA shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part B of the Project, the accomplishment of the purposes of the Loan, or the performance by CAMPINAS or SANASA

of its obligations under this Agreement and under the SANASA Agreement.

ARTICLE III

Management and Operations of SANASA

Section 3.01. SANASA shall carry out its operations and conduct its affairs in accordance with sound administrative, financial, engineering, sanitation and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. SANASA shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 3.03. SANASA shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) SANASA shall maintain procedures and separate records and accounts adequate to monitor and record the progress of Part B of the project (including its costs and the benefits to be derived from it) and to reflect in accordance with sound accounting practices its operations and financial condition.

(b) SANASA shall:

(i) have the records referred to in Section 4.01 of this Agreement, and its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, SANASA shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, certified copies of all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal

year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Except as the Bank shall otherwise agree, SANASA shall produce for each of its fiscal years after its fiscal year ending on 1987, total revenues equivalent to not less than the sum of its (i) total operating expenses; (ii) the amount by which debt service requirements exceed the provision for depreciation; (iii) dividends; (iv) working capital increases as a result of the execution of Part B of the Project; (v) at least 20% of expenditures incurred and expected to be incurred under Part B of the Project during such year; and (vi) 100% of expenditures in the expansion of the water distribution network associated with the execution of Part B of the Project.

(b) Before November 30 in each of its fiscal years, SANASA shall, on the basis of forecasts prepared by SANASA and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that SANASA would not meet the requirements set forth in paragraph (a) for SANASA's fiscal years covered by such review, SANASA shall take all necessary measures (including, inter alia, adjustments of the structure or levels of its rates) in order to meet such requirement.

(d) For purposes of this Section:

(i) The term "total revenues" means the sum of total operating revenues and net non-operating income.

(ii) The term "total operating revenues" means revenues from all sources related to operations.

(iii) The term "net non-operating income" means the difference between:
(A) revenues from all sources other than those related to operations; and
(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 4.4% per annum of the average current gross value of SANASA's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(v) The average current gross value of SANASA's fixed assets in operation shall be calculated as one half of the sum of the gross value of SANASA's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Unless the Bank and the Borrower otherwise agree, SANASA shall not incur any long-term debt if after the incurrence of such debt the aggregate of all outstanding long-term debt incurred by SANASA outstanding (excluding the Loan) shall be equivalent to \$5,000,000 or more.

(b) For purposes of this Section: (i) "long-term debt" means any debt maturing by its terms more than one year after the date on which it was originally incurred; and (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date of the agreement providing for such guarantee has been entered into.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of CAMPINAS and SANASA thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify CAMPINAS and SANASA thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For CAMPINAS:

Prefeitura Municipal de Campinas
Av. Anchieta 200
Campinas - SP CEP 13100
Sao Paulo
Brazil

Telex:

0191157

For SANASA:

Sociedade de Abastecimento de Agua
e Saneamento, S.A.
Rua Regente Feijo, 859
Campinas, SP CEP 13015
Sao Paulo, Brazil

Telex:

0191157

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed under this Agreement on behalf of CAMPINAS may be taken or executed by the Major of Campinas or such other person or persons as the Major of Campinas shall designate in writing, and CAMPINAS shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. Any action required or permitted to be taken, any document required or permitted to be executed, under this Agreement on behalf of SANASA, may be taken or executed by the President of SANASA or such other person or persons as the President of SANASA shall designate in writing, and SANASA shall furnish to the Bank sufficient evidence of authority and the authenticated specimen signature of each such person.

Section 6.04. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer B. Steckhan

Acting Regional Vice President
Latin America and the Caribbean

MUNICIPALITY OF CAMPINAS

By /s/ Cesare Manfredi

Authorized Representative

SOCIEDADE DE ABASTECIMENTO DE AGUA E
SANEAMENTO S.A.

By /s/ Cesare Manfredi

Authorized Representative

