

CONFORMED COPY

LOAN NUMBER 7164-UR

Loan Agreement

(Structural Adjustment Loan)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 15, 2003

LOAN NUMBER 7164-UR

LOAN AGREEMENT

AGREEMENT, dated April 15, 2003 between REPUBLICA ORIENTAL DEL URUGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated March 7, 2003 (the Letter of Development Policy), describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof;

(B) the Borrower has also requested the Bank to provide additional assistance in support of the Program and the Bank has agreed to provide such assistance in an amount equal to one hundred fifty-one million five hundred twenty thousand Dollars (\$151,520,000); and

(C) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

“ ‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

- (b) Section 3.08 is modified to read:

“Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. If the Loan Currency is not the currency of the deposit account specified in Section 2.02 of the Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.”;

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”;

- (d) the last sentence of Section 5.03 is deleted;

- (e) Section 9.07 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”; and

- (f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) “ADME” means *Administradora del Mercado Eléctrico*, a non-state public person (*persona pública no estatal*) in charge of the administration of the electricity wholesale market in the Borrower’s territory, established pursuant to Law No. 16.832 of June 17, 1997, or any successor thereto;

(b) “AFE” means *Administración de Ferrocarriles del Estado*, the Borrower’s autonomous railway entity in charge of rendering transportation services, established pursuant to Law No. 14.936 of July 10, 1975, or any successor thereto;

(c) “ANCAP” means *Administración Nacional de Combustibles, Alcohol y Portland*, the Borrower’s autonomous entity in charge of fuel, alcohol and Portland cement, established pursuant to Law No. 8.764 of October 15, 1931, or any successor thereto;

(d) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(e) “Executive” means the executive branch of government of the Borrower;

(f) “ILD” means international long distance telephone;

(g) “MIEM” means *Ministerio de Industria, Energía y Minería*, the Borrower’s Ministry of Industry, Energy and Mining;

(h) “OPP” means *Oficina de Planeamiento y Presupuesto*, the Borrower’s office of planning and budgeting, established pursuant to Article 230 of the Borrower’s Constitution;

(i) “OSE” means *Administración de Obras Sanitarias del Estado*, the Borrower’s decentralized service entity in charge of providing water services in all of the Borrower’s territory and sanitation in all of the Borrower’s territory except the Department of Montevideo, established pursuant to Law No. 11.907 of December 19, 1952, or any successor thereto;

(j) “PPAs” means power purchase agreements awarded through competitive procedures;

(k) “UFW” means unaccounted for water;

(l) “URSEA” means *Unidad Reguladora de los Servicios de Energía y Agua*, the Borrower’s regulatory unit for energy and water services, a deconcentrated organ (*órgano desconcentrado*) of the Borrower, established pursuant to Law No. 17.598 of December 13, 2002; and

(m) “URSEC” means *Unidad Reguladora de Servicios de Comunicaciones*, the Borrower’s regulatory unit for communication services, a deconcentrated organ

(*órgano desconcentrado*) of the Borrower, established pursuant to Articles 70 through 97 of the Borrower's National Budget Law (Law No. 17.296) of February 21, 2001.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred fifty-one million five hundred twenty thousand Dollars (\$151,520,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c), (d) and (e) of this Section, the Borrower shall be entitled to withdraw the amount of \$150,004,800 from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the amount of \$51,520,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(i) with the progress achieved by the Borrower in the carrying out of the Program;

- (ii) that the macroeconomic policy framework of the Borrower is satisfactory; and
- (iii) that the actions described in Schedule 3 to this Agreement have been taken in a manner satisfactory to the Bank.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii), and (iii) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

(e) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the amount of \$101,520,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

- (i) with the progress achieved by the Borrower in the carrying out of the Program;
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory; and
- (iii) that the actions described in Schedule 4 to this Agreement have been taken in a manner satisfactory to the Bank.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii), and (iii) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) 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 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 said 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 Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedules 3 and 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedules 3 and 4 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Events of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program.

(b) An action has been taken or a policy has been adopted to materially reverse any action or policy under the Program in a manner that would, in the opinion of the Bank, adversely affect the achievements of the objectives of the Program.

(c) An action has been taken or a policy has been adopted to materially reverse any action listed in Schedules 3 and 4 to this Agreement.

(d) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The date July 14, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Economía y Finanzas
Colonia No. 1089
Montevideo, Uruguay

Cable address: MINECON Telex: 269 MICECON UY, Montevideo, Uruguay

Facsimile: (598) 2 900-0186

For the Bank:

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)

(202) 477-6391

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.

REPUBLICA ORIENTAL DEL URUGUAY

By /s/ Carlos Sténeri

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Redwood

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each April 15 and October 15	
Beginning April 15, 2008 through October 15, 2017	5%

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said 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 principal amount of the Loan withdrawn and outstanding from time to time shall be 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.

SCHEDULE 3

Actions Referred to in Section 2.02 (d) of this Agreement

Regulatory Reform

1. MIEM has issued a decree announcing the target tariff for electricity distribution and establishing a convergence path towards the target tariff (consistent with URSEA's recommendation and the benchmarking studies carried out by URSEA).
2. MIEM has issued a decree establishing the regulatory framework for the importation, production and commercialization of petroleum products.
3. The Executive has issued a decree establishing the regulatory framework for the Borrower's postal services sub-sector.
4. The Executive has issued a decree approving two divisions within ANCAP with separate accounts, management and finances for its petroleum business and its port and logistic facilities.
5. The Borrower has complied with a new natural gas law, which includes provisions to: (a) eliminate legal ambiguities, including with respect to the attributions of the public and private sector; (b) establish a tariff regime; and (c) define right of way issues.
6. The Borrower's Congress has approved and the Executive has promulgated a law establishing the legal and regulatory framework for the water supply and sanitation sector, which includes, *inter alia*, provisions to shift the authority to carry out feasibility studies and grant concessions from OSE to the Executive.

Efficiency and Competition

7. ADME has approved a first set of PPAs and has requested proposals for three ongoing energy contracts to be replaced by PPAs.
8. The Executive has approved unit tariffs and URSEA has approved conditions for open access to ANCAP's port, wholesale oil import, and storage facilities.

9. OSE has offered to award a performance-based contract to a private operator for the management of the UFW reduction program in Montevideo, as evidenced by the public offer issued for the award of the contract.

10. The Borrower has brought to the point of concession the management of the Carrasco International Airport, as evidenced by the issuance of invitations to bid for the award of the concession.

Institutional Development

11. The Borrower, through MIEM, has published and complied with a national energy policy which addresses issues relating to: (a) the relative price of fuels; (b) the economics of gas and electricity importation from Argentina and Brazil; (c) the economics and politics of a strategic national reserve of generating capacity; (d) the environmental impact of changes in the country's energy portfolio; (e) the consistency of the new electricity, gas and petroleum regulations with the national energy policy; and (f) the institutional capacity required to implement and monitor a national energy policy.

12. The Borrower has fulfilled all of the conditions set forth in Schedule 3 to the Special Structural Adjustment Loan Agreement of even date herewith (Loan 7165-UR).

SCHEDULE 4

Actions Referred to in Section 2.02 (e) of this Agreement

Regulatory Reform

1. (a) Private and public utilities under URSEA's and URSEC's jurisdiction have implemented regulatory accounting, as certified by independent auditors; and

(b) private and public utilities under URSEA's and URSEC's jurisdiction have published performance indicators for the fourth quarter of 2003.

2. The Borrower has fully closed the gap between the ex-refinery and the estimated import parity prices of petroleum derivatives.

Efficiency and Competition

3. The Borrower has reduced relative price distortions in the structure of fuel taxation, through the enactment of any necessary amendments to existing tax laws, to the extent necessary to reach equilibrium with the major neighboring countries.

4. The first spot transactions for electricity have been completed under the framework of the ADME.

5. URSEC has: (a) set up an independent telephone numbering management system; (b) adopted a customer database administrator; and (c) defined precise rules for signaling (i.e., identifying the origin and destination of a telephone call).

6. (a) The Borrower has brought to the point of concession the management of the Montevideo port multipurpose terminal (*puerto polivalente*), as evidenced by the issuance of invitations to bid for the award of the concession; and

(b) the Borrower has offered to award contracts to private companies to operate in former AFE rail network, as evidenced by the public offer issued for the award of the contracts..

7. The Borrower has fulfilled all of the conditions set forth in Schedule 4 to the Special Structural Adjustment Loan Agreement of even date herewith (Loan 7165-UR).

